CANADA MORTGAGE AND HOUSING CORPORATION

THE ROLE OF PUBLIC - PRIVATE PARTNERSHIPS IN PRODUCING AFFORDABLE HOUSING: ASSESSMENT OF THE U.S. EXPERIENCE AND LESSONS FOR CANADA

HOUSING AFFORDABILITY AND FINANCE

Research Report

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The Role of Public-Private Partnerships in Producing Affordable Housing:

Assessment of the U.S. Experience and Lessons for Canada

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Purpose

The purpose of this research report is to examine the American experience with public-private partnerships (PPPs) and the role partnerships play in the production of affordable housing, and second to identify possible lessons that might help to strengthen and broaden current efforts to initiate PPPs in Canada.

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Executive Summary

Objectives and structure of the report

This report examines how public-private partnerships (PPPs) have emerged in the United States as a delivery vehicle for the provision of affordable housing.

The report first reviews the historical factors and circumstances that bred the PPP system. This evolutionary period is contrasted with the conditions that prevailed in Canada. Part 1 briefly reviews and presents a conceptual framework to describe the range of mechanisms and measures that are used to patch together affordable housing.

Part 2 then introduces and reviews a set of illustrative case studies that were used to examine, in greater detail, how affordable housing projects and partnerships are structured and packaged in the United States. The key features of affordable housing projects and PPPs are highlighted.

Part 3 provides a brief overview of the Canadian context and reviews a smaller set of Canadian case studies. The experience in each country is juxtaposed as a way to help understand the differences that exist and the potential of some of the U.S. approaches to be adapted to fill voids in the Canadian system.

An overall assessment of the U.S. experience and the opportunities to expand the production of affordable housing in Canada through PPPs are the subject of Part 4.

Three detailed appendixes contain, respectively, greater detail on the mechanisms, measures and roles of key partners (Appendix A); profiles of the 15 U.S. case studies (Appendix B); and profiles of the seven Canadian case studies (Appendix C).

The evolution of PPPs in the United States and Canada

Although associated with significant cuts to new funding commitments for low-income housing production in the early 1980s, the foundation for a PPP system was rooted in the 1970s. In the industrial heartland (the Northeast and Midwest), urban distress and the urban reform movement created a network of community-based organizations with a strong interest in urban revitalization that inevitably embraced housing.

Unlike the situation in Canada, through the 1970s and 1980s, low-income housing programs in the United States provided only limited funding for community-based non-profit housing development. Available programs focussed either on subsidies to encourage private developers to construct low-income housing or on tenant-based shelter allowances. The non-profit community-based sector was largely precluded from low-income production programs; they matured in a relatively hostile environment and a private market ideology.

Although housing production programs for the non-profit community sector were constrained, urban decline stimulated a variety of programs and funding to respond to this growing problem. As a direct consequence, the community-based non-profit sector became very creative and entrepreneurial—forging alliances with local government, the foundation and philanthropic sector (which is far more substantial in the United States) and, where possible, with private corporations.

Opportunities to develop alliances in joint ventures and PPPs were reinforced in the late 1970s when Congress enacted legislation "encouraging" lenders to remedy the practice of selective lending and so called redlining under which low-income (and often minority) households and low-income neighbourhoods were precluded from access to mortgage financing. Legislation now mandates the active participation of the corporate financial sector although, increasingly, the private sector is recognizing the benefits of its involvement, and is expanding its role.

In short, the seeds for effective PPPs were planted early and although in some respects the soil was not always fertile, a community-based sector both survived and became entrepreneurial and opportunistic—taking advantage of all possible sources of funding and expertise. They became adept at producing, or more often preserving, affordable housing by creatively latching on to available resources and cobbling together a project.

Thus PPPs in the United States were borne out of both circumstance and need. They were not conceived as an explicit policy objective of the federal government although, more recently, PPPs have been encouraged and facilitated by a number of federal initiatives. Moreover, despite the label public-private partnership, most partnerships are rooted in the non-profit sector.

Cuts in new production funding arrived a decade later in Canada, in 1994, and efforts to assemble PPPs in this country are, consequently, a more recent phenomenon. In addition to some broader differences in social values and attitudes between the two countries, there are some fundamental differences in the context within which Canadian PPPs have emerged.

Foremost among these is the relative absence of a similar formative period in Canada. While some experimentation with joint ventures is evident in the latter 1980s, there has been less urgency to be creative and develop alternative approaches. A well-established non-profit production system emerged and was maintained by public funding programs continuously over a 20-year period, albeit with diminishing levels of funding in the latter years. Arguably, the non-profit sector itself became dependent on government subsidies. Consequently, the entrepreneurial spirit and culture that characterizes the U.S. system did not have the necessity to evolve and, accordingly, is far less apparent in Canada.

Similarly, important differences in the nature of the housing finance system in each country lessened the incentive to develop a secondary mortgage market system. In Canada, the absence of serious problems of discrimination in lending mitigates any pressure for regulatory policing of lending practices—the issue that stimulated the *Community Reinvestment Act* in the United States. Finally, by way of contextual comparison, the tradition of philanthropy is far less entrenched in Canada.

Conceptualizing PPPs in the United States

Concurrent with the emergence of PPPs, the U.S. housing system has transformed from a relatively homogenous, so-called "plain vanilla," program-driven system to one characterized by multiple participants involved in any one project. There is also considerable diversity in the nature of the arrangements used to procure affordable housing.

A key feature of the U.S. approach is that most of the measures and mechanisms focus on the financing aspect of the project or partnership. There is a heavy reliance on mechanisms that reduce debt costs. Affordability is pursued by minimizing debt service costs so the break-even rent is relatively affordable and the project is viable without the need for ongoing subsidy assistance to reduce rents to affordable levels. With the exception of some projects that have secured a rent supplement type of assistance (Section 8 program under the U.S. *National Housing Act*, NHA), or in cases where individual households benefit from a shelter allowance program (also called Section 8), rents are not directly subsidized.

For the most part, the U.S. approach now involves low-cost or "no cost" financing. These come through a number of sources but, invariably, involve some form of direct or indirect public subsidy. Most financing subsidies originate at the federal level but flow through local and state government in the form of block grants. States and localities augment these with their own funds. Together, the Community Development Block Grant, which has been funded since 1974, and the more recent HOME Investment Partnership Program (created by consolidating other existing programs in 1990), provide more than $5 billion (1998 appropriations) to states and localities for community revitalization—much of which involves housing rehabilitation and development.

With this significant source of federal funding, localities have been stimulated to add some of their own funds and to create a wide array of programs and mechanisms to respond to affordable housing needs. Many cities have established formal partnership agencies, autonomous from the local government, drawing on the expertise and financial participation of community and corporate partners. These autonomous and well-resourced local PPPs have proven to be extremely flexible and responsive in developing local programs that meet local affordable housing need—though not necessarily the very lowest income need.

A major source of "no cost" financial support for new development is derived from the tax system in the form of tax credits. Created through the *Tax Reform Act* of 1986, the Low-Income Housing Tax Credit (LIHTC) has spawned an entire industry, and an institutional infrastructure of intermediaries has been created to syndicate and sell the tax credit and to advance the proceeds to eligible projects (those serving specified low-income targets). Through the LIHTC, state housing finance agencies provide tax credits to reduce federal taxes for corporate investors (these are tax credits, not merely a deduction in taxable income). Investors purchase a stream of credits that can be used each year for a 10-year period. After 10 years of layering a new allocation of credits each year, the annual tax expenditure cost of this mechanism approximates $3 billion.

Tax-credit-induced equity investment often represents 30 to 50 per cent of the capital costs of new low-income rental housing. Unlike debt, there is no repayment. It is pure equity. As such, it is a critical feature in producing housing in which rents are affordable.

Although the LIHTC is an important mechanism, the core of the U.S. PPP approach is the network of so-called intermediaries that have emerged. These exist at both the national and local levels and provide a range of services to assist community-based organizations. This includes helping to build and expand local capacity, attracting corporate donations, development assistance, lending and granting programs, and supporting an advocacy network. With the creation of the LIHTC in 1986, intermediaries have taken on a significant role as syndicators and conduits for tax credit investment pools. This has enabled them to expand their education, advocacy and capacity-building activities, so non-profit operators rehabilitating and building affordable housing have access to the skills required to develop and manage these assets (as well as designing and delivering a range of other community services).

The non-profit financial intermediaries that exist in the form of equity funds, trust funds and large corporate entities (that in comparison make CMHC look small), are overseen by voluntary boards composed of leaders in corporate America. They wield considerable power and influence and are an important constituency in gaining political support for community development and affordable housing.

The United States is recognized for a large philanthropic sector. In 1998, more than 40,000 foundations existed, almost 8,000 of these with assets greater than $2 billion each. This is an important sector in helping to establish and expand the infrastructure for partnerships. At the largest scale, philanthropists were the catalysts in establishing the two largest national intermediaries—the Local Initiatives Support Corporation (LISC), created in 1979 by the Ford Foundation and the Enterprise Foundation, created by the late James Rouse, a large real estate developer and philanthropist. LISC and Enterprise have gone on to become major organizations, acting very much like corporations (but with non-profit status and a strong social purpose).

On a smaller scale, foundations provide extensive financial support to help establish and develop the expertise of community groups, support research of social issues, and undertake advocacy activities with the aim of influencing public policy reform.

Although the philanthropic sector is very large, its involvement in housing is limited. Foundations seldom provide equity investment to facilitate project development. They recognize that housing development is a very specialized activity, better left to experts, and because, alone, their individual grants would not be sufficient to make projects viable. Their main contribution to project financing is indirectly through contributions to housing funds. These funds then create low-interest loan pools which can be used to provide either a layer of the overall financing packages, or grants that help community groups enhance the quality of life in affordable housing (e.g., by providing child care, employment counselling).

Broad set of mechanisms and measures

Key elements of the U.S. PPP system derive from legislated "encouragement." Most prominent is the *Community Reinvestment Act* (CRA) that requires financial institutions to reinvest a specified proportion of their deposits back into the local community and, specifically, prohibits redlining of distressed and low-income areas. In the early 1990s, the CRA provisions were complemented by further legislation imposing targets on the loans purchased by the large secondary mortgage market government-sponsored enterprise (GSE) institutions—Fannie Mae and Freddie Mac. A specific percentage of the loans they purchase must meet affordable housing criteria.

In responding to this legislated mandate, these institutions have initiated a series of innovative mortgage underwriting products broadly aimed at supporting the individual lenders in originating affordable housing loans. These lending products are also designed to minimize and mitigate the risk inherent in serving low-income borrowers.

In sum, a wide variety of mechanisms has been developed in the United States which work together to create many layers of financing products that, in turn, support the production of affordable housing.

The illustrative case studies included in the report reveal the variety of mechanisms that has been developed for U.S. PPPs, as well as the range of successes that have been achieved. One characteristic is especially notable: many communities have identified the existing housing stock as a valuable resource. This is, in part, due to urban distress and neighbourhood deterioration in many cities, but it also reflects the reality that, with only limited financial resources, a greater impact can be achieved by working with existing properties where the costs are inherently lower. This maximizes the use of scarce funds in achieving the goal of providing a significant volume of affordable housing.

These approaches are especially prevalent in the cases that did not utilize the relatively generous LIHTC. In a number of cases, they involve affordable homeownership initiatives—combining low-cost acquisition with rehabilitation, financial counselling and ownership education, and specialized underwriting and lending products designed specifically (under the auspices of the GSE's affordable housing goals) to assist what would traditionally have been seen as more marginal borrowers. Public financial support (often in the form of preferred rate or deferred interest soft second mortgages) and a policy framework, including legislated requirements, have been used as tools to enhance the credit worthiness of low-income borrowers and ensure the financial viability of projects. This public support effectively mitigates risk and is an important consideration in attracting the participation of private lenders in funding affordable housing mortgages.

The Canadian cases reveal some promise. A number of communities are seeking to emulate some of the U.S. practices, most notably in developing acquisition and rehabilitation approaches, and seeking to establish housing trust funds. However, these initiatives have been very limited to date, and they have yet to achieve success in serving low-income households or in producing a significant volume of housing.

Lessons for Canada

The U.S. experience shows that affordable housing can be produced through PPPs. However, it must be borne in mind that this achievement is based on significant levels of public financial assistance provided through various grant and tax credit programs. These subsidies, combined with policy support, have levered additional private-sector financing in support of the goal of providing affordable housing. They have stimulated the growth of a wide array of intermediaries and specialized affordable loan products. Over time, the system has grown and built on itself.

While the private-sector participation is important, it is difficult to understate the essential role played by the subsidies—few of the PPPs would be successful without the substantial public funding available in the United States.

In Canada, no such similar public funding is available. The limited Canadian initiatives have benefited from some policy support (from all three levels of government), but continue to struggle with the truism that it is extremely difficult to serve low-income housing needs with no public financial support or subsidy.

The U.S. experience clearly suggests that some level of funding—but not necessarily ongoing subsidies—is a critical prerequisite to encourage and lever investment from other sources, and to stimulate the creation of mechanisms that can act to stretch limited public investment further. PPPs are only as good as the tools and funding mechanisms they have at their disposal.

The report concludes by outlining a range of potential activities in which CMHC and the Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) could engage to promote the production of affordable housing through PPPs, without significant government expenditure programs. Many of these activities are supportive and facilitative.

Foremost among the recommendations is the proposal that CMHC work in collaboration with the provinces and territories to help establish local housing trust funds. This could be an effective way to stimulate the creation of local housing partnerships and to fuel development of locally designed affordable housing initiatives.

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Introduction

This research report was commissioned by Canada Mortgage and Housing Corporation (CMHC) to examine the U.S. experiences with public-private partnerships (PPPs) in producing affordable housing. The objective is to identify measures that might be employed in Canada to expand the use of PPPs to support the provision of affordable housing.

Through the early 1990s, successive budget constraints reduced the level of new federal funding for non-profit housing production in Canada. All federal funding for new non-profit production was effectively curtailed in January 1994, although the federal government continued to expend some $2 billion annually to support the existing subsidized projects put in place over the previous 45 years.[1] Savings in administration and interest costs were also used to fund rehabilitation programs and some small targeted programs such as housing adaptation for seniors' independence, and emergency and second-stage shelters for victims of family violence.

Without funding for new non-profit production, attention in Canada has shifted to alternative approaches to address the persistent low-income housing need. Expanding the potential of public-private partnerships is one element in the search for new mechanisms.

This approach is one that has been strongly embraced in the United States where PPPs are increasingly viewed as significant elements in providing low-income affordable housing (Zdenek 1990; Carr 1994; Nenno 1996).

The emergence of PPPs in the United States in the early 1980s occurred in a similar context to that now prevailing in Canada—curtailed funding for new affordable housing. The United States now has more than a decade of experience and has evolved a housing system that creatively develops and uses partnerships to attract and funnel a combination of public and private funds to support affordable housing initiatives. Accordingly, it makes sense to examine how this approach has evolved in the United States and to determine the possible lessons for Canada.

The concept of public-private partnerships

Prior to discussing the nature of the partnership "system," it is appropriate first to identify what is meant by the term public-private partnership (PPP).

In many respects, the term public-private partnership is misleading. At first glance, it connotes an image of a private-sector, for-profit business working in parallel, perhaps as an equal partner, with the public sector, to provide some societal benefit—in this case, affordable housing.

The review of the literature and the case studies presented here suggest that the concept is not that simple.

The most serious omission is the fact that the central player in most projects and partnerships is not reflected in this title—the community-based non-profit organization that is typically the initiator and most motivated player in the new partnership production system. Although most of these organizations, which in Canada are labelled as "the third sector," and in international development terms are identified as non-governmental organizations (NGOs), are private, mainly not-for-profit organizations. For most people, the term "private" connotes a for-profit organization, and does not encompass NGOs. To eliminate confusion, using one word—partnerships—would better capture the entity being discussed.

Again, as is evident from a number of the case studies included later in this report, most efforts where partnerships are formed are focussed on neighbourhood and community (re)building. Goals, such as a stronger community with less crime, gainful employment and a population that can actively participate as consumers of products and services, hold far greater appeal to attract private investment than simply building a housing project for low-income people.

The community-based development and housing organizations that are evident in almost all partnerships are in fact more than housing developers; they are catalysts for change (Carr, 1994).[2] They seek to involve both public and private for-profit agencies and corporations to raise awareness of the opportunities and potential that exist in what were often distressed communities. They seek to change attitudes and business practices in both the public and private sectors to enhance services and opportunities in these targeted neighbourhoods[3].

The inclusion of not-for-profit community-based organizations within the term "private" significantly broadens the concept. The U.S. General Accounting Office has taken this approach in defining PPPs as follows:

> We define public private partnerships as joint efforts *between the public and either the private for-profit or the private non-profit sector*. In contrast to privatization, contracting out or other arrangements between private and public sectors, a partnership signifies that both public and private sectors share risks and responsibilities in order to meet critical community needs, as defined by the partners. Shared risk means that both partners could lose resources; it encourages the involvement of both public and private sectors in ventures that neither could successfully attempt alone (U.S. GAO/PEMD May 1990, emphasis added).

In short, for the purposes here, public-private partnerships are defined to include arrangements where development is undertaken with a combination of not-for-profit, private and public participants or programs. However, PPPs are not undertaken within the context of a single mainstream program. They represent a more dynamic involvement of public-sector, and non-profit and private interests in which each contributes something and shares some level of risk.

While an overview of the traditional direct funding approaches that have been used in each country is provided in this study, the primary objective is to describe the range and nature of initiatives that have moved beyond the parameters of traditional prescriptive funding programs.

The research approach and structure of the report

The research team employed a combination of literature search and informant interviews to prepare the background context about the affordable housing system in the United States. A series of illustrative case studies—15 from the United States and seven from Canada, each profiling a specific project or partnership—has also been prepared. The purpose of the case studies is to provide some detailed insight into the range of approaches used and, more particularly, how various partnering mechanisms have been packaged to develop affordable housing projects in the United States.

These cases show the role of different partners; the range of funding sources and measures accessed; the financial structure of the project; and the outcome in terms of affordable housing production. The Canadian case studies depict the current situation in Canada as a basis for comparison with this U.S. experience.

The report is structured into four parts and contains three appendixes.

Part 1 provides an overview of the context in which partnership approaches have emerged in the United States. It first describes the methods used to develop affordable housing before the early 1980s when traditional federal programs were severely curtailed through budget reductions. This chapter then describes the key events and conditions that have arisen since the early 1980s that shaped the environment that now prevails—one which seems to encourage and facilitate partnerships to procure affordable housing.

This review concludes with the presentation of a conceptual framework comparing the earlier program-based approach to the multi-layered partnership financing model that now characterizes PPPs.

The variety of measures and mechanisms that make up this system are then categorized and listed. In Appendix A, each mechanism and measure is described in a greater level of detail, with reference to examples from the case studies, where relevant.

Part 2 presents an overview and discussion of the 15 U.S. case studies of affordable housing development produced in the context of a PPP framework. The cases were selected after consultation with a wide range of practitioners and experts in the United States. The intent is to illustrate as wide a range of examples as possible, encompassing a variety of funding sources, both ownership and rental tenure, mixed income and mixed residential–commercial, and a combination of new construction and rehabilitation. The key features of U.S. PPPs are assessed. The detailed case profiles are contained in Appendix B.

Part 3 provides a brief overview of the Canadian context and the emerging nature of PPPs in Canada. It describes seven illustrative cases that reveal the state of the art in Canada in order to set a context in which to assess the U.S. experience and the possible lessons for Canada.

Part 4 reviews the U.S. and Canadian experiences and draws out the key lessons for Canada. The relevance of the U.S. mechanisms and measures to Canada is assessed and a number of potential opportunities to enhance the capacity for affordable housing production in Canada are outlined. The report concludes with the enumeration of a series of possible actions to be considered by CMHC and the Canadian Centre for Public-Private Partnerships in Housing, and some concluding observations of the relevance of the U.S. experience.

Numerous names and associated acronyms are used throughout the report. To assist readers unfamiliar with the U.S. housing system a listing of terms is provided at the end of the report (placed directly before the three appendixes).

Part 1: The Context for Public-Private Partnerships in the United States

Setting the stage for partnerships: the evolution of affordable housing policy and programs[4]

The new financing and funding mechanisms and partnerships that prevail in the United States today have evolved over the last 15 years, in an attempt to fill the void left by the broad cuts to housing and urban development delivered by the 1981 *Omnibus Budget Reconciliation Act*. Before exploring the new methods and partnering mechanisms, we briefly review the methods used to develop affordable housing before the 1980s.[5]

Pre-1980: the era of federal programs

Prior to the 1980s, most affordable housing production occurred under the auspices of federally funded programs. Since the post-war period, some 4.5 million units of affordable housing were provided under an evolving, and sporadic, series of programs including public housing, private development of low-income housing and shelter allowances. While there were shifts in the design and focus of the programs themselves, the single most notable and consistent characteristic of this period was a strong federal presence—indeed dominance—in program development, administration and funding.

During the four decades following the war, the key features of federal housing policy were:

- direct provision in the form of public housing;
- an increasingly strong preference for privately sponsored and provided developments;
- a gradual shift away from direct project-based supply subsidies to tenant-based housing allowances;
- increasing reliance on tax-based mechanisms; and
- efforts by various federal administrations to shift increasing levels of responsibility to the state and local level. The shift to state and local involvement was only beginning to emerge at the end of this period, a trend that became more substantial in the 1980s.

Like Canada, the initial effort to address low-income housing need in the United States was in the form of direct public housing. Enacted initially as a public works employment initiative during the Depression, public housing in the United States has continually laboured under a hostile environment.

Commencing with the *Housing Act* of 1937, public housing was consistently opposed by private-sector real estate interests, who lobbied successfully to limit eligibility to only the very low-income households in order to minimize competition from publicly funded housing. Many of these were very large projects; many also suffered from poor location—often associated with large-scale slum clearance and urban renewal.

The middle class suburban exodus in the 1960s, issues of race and segregation, and associated inner city blight, further affected public housing. During this same period, public housing residency shifted to a much lower income level and the minority concentration increased. Inevitably, public housing became symbolic of poverty and distress, and rapidly fell into disrepute.

The legacy of the public housing experience for the emerging new partnership approach is threefold. First, it has been indelibly marked as a failure of public intervention and one that neither the public nor policymakers wish to repeat. This reinforces the emphasis on private-sector involvement.

Second, although public housing was funded with operating subsidies from the federal government, capital was raised through local bond issues, backed by a federal commitment to pay the interest and amortization costs. This local capacity to raise capital for housing and other public infrastructure was formalized in the 1960s when states were encouraged to establish state housing finance agencies (HFAs). Unlike public housing, state housing finance agencies were not provided with a federal subsidy contract to pay off the bonds. Their primary advantage was in the interest being tax exempt, thereby enabling funds to be raised at a favourable interest rate. These agencies and this facility to raise low-cost capital have emerged as important components of the PPP system.

Third, the most severely distressed large projects have recently become the focus of redevelopment initiatives in which housing authorities are strongly encouraged to develop PPPs and to introduce mixed income development (e.g., HOPE VI—discussed later).

In addition to reducing public housing to a residual level, a strong real estate lobby, coupled with a market-oriented ideology in government, supported the shift to subsidized private for-profit rental housing. Developers agreed to provide below-market rents for moderate-income households in exchange for subsidized mortgage rates. Much of this privately developed and operated low-income housing was financed with mortgages insured through the Federal Housing Administration (FHA).

Through the mid '60s to mid '70s, local public housing authorities (PHAs) were encouraged to place low-income households in leased private accommodation (a precursor to the Section 8 certificate program).

In 1973, the Nixon administration imposed a moratorium on new subsidized housing. This was followed by the *Housing and Community Development Act* (1974)—a critical feature in facilitating local initiative and, ultimately, partnerships.

The moratorium provided an opportunity for the administration to reassess the direction of federal housing policy. It also set the stage for the new legislation that consolidated a number of programs (into a new Section 8 program described below) and emphasized family/person-based subsidies, over the project-based approach. It also introduced the Community Development Block Grant (CDBG) as part of a strategy to reduce federal involvement and to increase the responsibility of local government.

The CDBG mechanism remains in place today and, although hindered by cuts in federal housing funding, has assisted the development of partnerships in requiring localities to add their own funds and to develop and implement local housing strategies.[6]

Another important feature of the 1974 amendments was the provision that authorized local housing authorities or their agents (state HFAs) to issue tax-exempt bonds to finance low- and moderate-income housing projects. These became an important component of the post-1980 system, mortgage bond financing being the primary source of affordable housing financing in the early 1980s. Alone, this form of financing was inadequate to achieve rents affordable to low- and very low-income households. Therefore, layering with other sources emerged—the early manifestations of PPPs. These mortgage revenue bonds were exempt from federal taxes, thereby enhancing the after-tax yield, especially for higher-income investors.

The Section 8 program had a number of sub-components, including project-based new construction or rehabilitation financing, as well as direct tenant assistance in the form of certificates that provide subsidies to limit rental costs to 30 per cent of income (25 per cent from 1974 until 1981). The project-based new construction and rehabilitation components provided a 20-year contract for rental subsidy payments to make up the difference between a cost-based contract rent and 30 per cent of tenant incomes, and built in an annual automatic adjustment factor to raise the contract rents.

The original hope was that, combined with the favourable depreciation allowances of the era, owners would be able to get conventional financing and the government's only role would be as a provider of a rental subsidy. However, lenders were unwilling to accept the 20-year rent guarantee as sufficient, and most projects were financed with market-rate FHA-insured loans or through state housing finance agency loans based on tax-exempt bonds. Subsequent high default on these FHA-insured multi-family projects has led to constraints in financing multi-family loans, especially in the latter half of the 1980s. PPPs have helped address this problem by effectively eliminating the requirement for high-ratio insured loans.

While these programs (Section 236 and Section 8) involved a combination of public and private parties (privately built and owned with assistance from HUD and ongoing administration of rental certificates/supplements via the local PHA), they are not public-private partnerships in the sense used for the purposes of this report. Although, in a narrow sense, they were early manifestations of partnerships, the risks were generally borne alone by the federal government (as evidenced by a high default rate on FHA-insured mortgages related to these programs).

Nonetheless, these types of programs induced significant levels of private-sector involvement from a very early period by both developers and outside investors. Virtually all private investment in low-income housing since the 1970s has been through limited partnerships, motivated by tax shelter opportunities and "extraordinary rates of return" (Case 1991). This long history of private-sector involvement, and thus familiarity, with housing for low-income people, may have some bearing on the current private-sector receptivity to PPP arrangements in the United States.

As direct beneficiaries of both subsidies and tax breaks, the private real estate lobby has been an effective and strong ally to the non-profit community sector in advocating for the introduction (and subsequently the extension) of the Low Income Housing Tax Credit program created in 1986.

State and local efforts

Noticeable by its absence from this very brief overview is the non-profit sector. Although the non-profit housing sector did establish a small foothold during the 1960s, developing housing under Section 202 (elderly and handicapped) and under the same Section 236 as private developers, the U.S. non-profit housing sector was not nurtured and developed in the way that government policy did so in Canada (Dreier and Hulchanski 1993).

Although initially not active in the production of housing, the community-based sector was nonetheless a force in urban revitalization, developing in the form of community development organizations. This sector emerged through the interaction and coalescing of interests from civil rights, labour unions, churches and community organizers as desperate need, talent and ingenuity, and opportunity combined in the cauldron of inner city distress with the objective of fighting poverty.

The community-based sector gained strength as the value of this movement was recognized. A number of community organizations were funded by the Ford Foundation; President Johnson's War on Poverty created the *Economic Opportunities Act* (1964), and its subsequent amendment in 1968 established the Special Impact Program, the first comprehensive approach to urban redevelopment (Zdenek 1990). Through the 1970s, this movement continued to expand. Although it pursued housing rehabilitation and development initiatives, it remained more broadly focussed than the non-profit housing providers in Canada did—another key difference that positioned these community-based groups to develop partnerships in the 1980s.

The same phenomena that underpinned the urban reform movement also stimulated state and local action. Urban change, associated with industrial decline in many of the older eastern and mid-western cities and "suburbanization" of the middle class, initiated a downward trend in the older central cores of many cities. Poverty and urban distress became more evident. Abandonment of rental properties, first by tenants and subsequently by landlords, exacerbated the spiral of decline and created losses for mortgage lenders, a notable factor that underlies their current involvement in loan consortia and PPPs.

Urban renewal and redevelopment became a major focus of attention and, inevitably, included housing. Urban renewal created the opportunity for cities to gain experience in community development and set some early foundations for the evolution of PPPs (Suchman et al. 1990). Housing rehabilitation programs and tax incentives to encourage investment emerged. By 1980, 13 states had enacted rehabilitation grant or loan programs, and 15 provided tax incentives for housing (Nenno 1996).

In other cities (e.g., Boston, San Francisco), problems of gentrification and displacement generated a new focus for local attention and a number of these cities enacted rent controls as a measure to try and preserve affordability. At the same time, conversion of rental properties to condominiums threatened the supply of rental stock, and various regulatory ordinances were enacted. Perhaps the most notable was that of Montgomery County, Maryland which, in 1980, instituted a condominium transfer tax to restrain conversion and provide a funding source for lower-income rental housing, thereby becoming one of the first jurisdictions to establish a housing trust fund.

Through the 1960-to-1980 period, the emerging localities and states were not acting in isolation to address urban distress. There was concurrent concern at the federal level, manifest in various commissions and reports and, as already noted, the establishment and expansion of community development block grant funding (CDBG and UDAG) to assist localities in developing remedial strategies. These were the seeds for collaborative efforts, leading in a number of cities to the formalization of broad coalitions into redevelopment and housing partnerships in the 1980s.

In summary, there has been a constant change in goals, programs and funding of federal housing assistance, with a trend across the post-war period from direct public supply to indirect demand-side assistance (in the form of shelter allowance certificates) and toward increasing reliance on the private sector and tax-related subsidies. The central feature across this period, until 1980, was a dominant, albeit diminishing, direct federal role. This federal role supported a series of mainstream production programs that were responsible for the vast majority of affordable and low-income housing production.

Elements rooted in this period that support the later emergence of partnerships include the creation of state HFAs; the attempt to increase local responsibility and participation through the CDBG; the broad focus of community-based coalitions and their collaboration with local government; and the active involvement of the private sector in tax-based investment for low-income housing.

The emerging environment for partnerships

The beginning of the Reagan administration in 1981 has been identified as a watershed in the evolution of affordable housing provision in the United States, primarily as a result of the dramatic cuts in appropriations for housing in general, and for affordable housing production programs in particular.[7]

These federal cuts created both the necessity and the impetus for a new approach to developing and funding affordable housing, and ultimately led to the emergence of PPPs.

By the time the Reagan administration took office, a number of the building blocks for creative new approaches were already in place. Others continued to evolve, essentially over two periods. The first half of the 1980s constituted a formative phase. It is prior to the 1986 tax reform that simultaneously reduced existing tax benefits for housing development and ownership, and created the low-income housing tax credit. The period since the mid-1980s has been one of consolidation and expansion. Since 1986, PPPs were more explicitly embraced and promoted by the policy environment (at both the federal and state level). The next sections highlight the key events during these two phases.

Building a new approach: the early 1980s

The curtailment of federal production programs was relatively abrupt, with funding for Section 8 new construction and substantial rehabilitation ending in 1983 and 1986, respectively. However, the development of new approaches occurred more gradually, shaped no longer by specific programs but by circumstances and various opportunities that presented themselves. These circumstances included:

- active local government involvement in urban redevelopment stimulated by the negative impact of distressed neighbourhoods and enabled by various federal block grant programs, particularly the CDBG;
- motivated and well-organized community development organizations, often facilitated by the philanthropic foundation sector;
- the facility to raise low-cost capital through the state HFAs (tax-exempt bonds);
- legislative requirements established under the *Community Reinvestment Act* (CRA) of 1977, for private financial institutions to reinvest in low-income communities, leading to the growth of pooled funds from lender consortiums; and
- expanded use of local government regulatory powers, especially using bonuses and special zoning provisions aimed at encouraging inclusion of affordable and low-income housing.

Perhaps the most important feature of this early formative period was the activism among community groups, especially in the larger urban centres of the Northeast and Midwest where urban distress was most apparent. As long time advocates of revitalization, their efforts were bolstered by a new-found imperative in local government. Local politicians realized that, with reductions in federal funding, the problems within their own backyards were going to intensify. Strong civic leadership emerged to propel the development of new approaches (Nenno 1996).

As already noted, many localities had begun to develop strategies and programs focussed on neighbourhood revitalization, utilizing both their own funds as well as those received via the federal block grant transfers.

Tangential to the initial growth of partnerships, rental housing development through the first half of the 1980s remained dominated by the private market, stimulated by very favourable tax provisions (discussed below). Although tenants might benefit from Section 8 vouchers or certificates, many projects were not specifically developed for low-income households.

The fundamental problem many groups encountered was that the production of affordable housing targeted to low-income households either required direct or implicit subsidy, or ways to lower the production or acquisition costs. The low-rent nature of these endeavours limited the capacity to lever debt financing from a rental income stream, negating high levels of repayable debt. This led to the imperative to find sources of free or low-cost money—a process that inevitably encompassed a variety of sources and resulted in layered, and often complex, financing arrangements. Private entrepreneurs were willing to invest equity only to the extent that subsidy contracts guaranteed rent revenue and positive cash flow. The phasing out of project-based assistance after 1983 removed this incentive, and new sources of equity were sought.

As the locus of affordable housing development shifted from the traditional private developer to community-based, non-profit organizations, another fundamental problem emerged: the inability of these non-profit developers to attract and secure capital for their development. Even though the CRA imposed some pressure for lenders to participate, they remained sceptical and reluctant.

The emergence of new financial intermediaries at the national, state and local levels occurred at this juncture and played a key role in shaping the new environment and, specifically, in structuring PPPs. In general, these new entities performed three vital functions.

- They mobilized private capital for both development and permanent financing.
- They provided technical assistance to build the capacity and expertise of local non-profit organizations in assembling diverse complicated financing packages.
- They provided credibility, support and, in some cases, financing, implicitly reducing the risk for private lenders.

At the national level, the two intermediaries most frequently identified with this formative period were the Local Initiatives Support Corporation (LISC) created in 1980 by the Ford Foundation (which had been active in assisting community development corporation capacity building since the 1960s), and the Enterprise Foundation, founded by real estate developer James Rouse. A third intermediary, the Neighborhood Reinvestment Corporation had already been established by Congress in 1978, as a government-sponsored enterprise to build and support a nationwide system of local housing partnerships.

While building capacity in the non-profit sector, these intermediaries also mobilized private capital for development and permanent financing for rehabilitation and new development. They became catalysts in matchmaking and building PPPs. Moreover, because their boards comprised establishment and community leaders, they wielded considerable influence on the policy framework.

Though these three remain the largest and the most active, over the decade, other intermediaries developed at the national, regional and local levels.

There has been a long tradition of philanthropy in the United States, and this sector made an important contribution to building the infrastructure of community development organizations and intermediaries. Although the philanthropic sector is very large (in 1997 over 40,000 foundations filed information returns with the Internal Revenue Service, and 8,000 of these had assets of more than $2 billion) their involvement is much more focussed on building local capacity than on directly funding housing. As noted above, philanthropists were the instigators of the two largest national intermediaries. At the local level, foundations provide grants to help establish and develop the capacity of local community development organizations, many of which pursue a wide variety of activities encompassing economic development, poverty reduction, human services, and housing rehabilitation and development.

Local government is another important player, often working in close association with foundations and intermediaries. Willing to contribute to the project development process through their zoning powers, municipally owned lands, tax abatements and federal block fund receipts, a number of cities formalized partnerships with broad participation from the community and private sector, often augmenting and collaborating with the national intermediaries. These included Cleveland in 1981, New York and San Francisco in 1982, Boston in 1983, and Chicago and the State of Wisconsin in 1985. In each case, the broad partnership was established as a non-profit corporation and, like the national intermediaries, worked closely as an interface between community organizations and the private and financial sectors.

These city-level partnerships often evolved to become a form of local intermediary instigating specific funds and programs, securing funding from the private partners and investors, and disbursing these through the programs including grants and loans for rental development, rehabilitation and homeownership assistance.

One substantial source of financing available to states (and an implicit tax expenditure to the federal treasury) was the capacity to issue tax-exempt bonds to finance multi-family rental housing. With the decrease and eventual curtailment in 1983 of Section 8 new construction allocations (and of substantial rehabilitation allocations in 1986), state and local housing finance agencies increased their financing activity from an average of 64,000 units per year between 1976 and 1981 to over 143,000 units per year between 1982 and 1984 (Baker 1985).

States and localities also began to develop new sources of dedicated funding to fill the so-called affordability gap in the project financing package.[8] Again drawing on their regulatory and administrative functions, cities and states began to levy special fees or to divert existing levies into dedicated housing trust funds. The earliest sources were real estate transfer taxes (paid on registration of a property transfer) and development or linkage fees levied on commercial development to reflect the need for housing for employees attracted by the new commercial space.

Through the 1980s, state, regional and local housing trust funds proliferated to the point that, by 1996, over 110 trusts were documented, covering all states and ranging from funds in small communities through to large metropolitan areas (Brooks 1997). Once dedicated sources of revenues were secured, these funds developed a range of grant and loan programs directed at both new development and rehabilitation. A number of such funds were accessed in the case studies described later.

The incentive to develop joint venture partnerships was enhanced by the 1981 *Economic Recovery Tax Act* (ERTA). These tax amendments included preferential treatment of low-income housing and, because the tax benefits flowed over a relatively short period, lent themselves to syndicated tax-motivated investment.

Moreover, these tax provisions also applied to passive investors, permitting paper losses from depreciation allowances to be applied against income from other sources. Consequently, the first half of the 1980s featured a high level of participation from small individual investors and high levels of multi-family housing production (though not necessarily affordable).

By 1985, total annual multi-family housing starts had reached a peak of nearly 600,000 units—although still not matching the peak of nearly 900,000 units reached in 1972 at the height of both public housing and the private, federally subsidized housing produced under programs instituted in the 1960s. (DiPasquale and Cummings 1992; Burchell and Listokin 1995).

Stimulated by investors chasing tax shelters, the early 1980s heralded a period of overbuilding in the multi-family rental sector. With many projects financed with FHA insurance, the FHA experienced high levels of default and lenders became increasingly cautious about lending on multi-family development. This created a capital crunch for development financing.[9]

In this environment, one way for private, profit-motivated developers to obtain financing for development of affordable housing was through partnering with non-profit groups that could access public funds. More adventurous non-profit organizations initiated joint ventures with private developers who, in turn, could benefit from access to special zoning provisions such as bonuses, as well as financing through state HFAs or trust funds.

The dominant role of the federal government in providing mortgage insurance, below market interest rates or interest subsidies, and rental assistance, augmented by favourable tax provisions had come to an end by 1986.
The central, coordinating role of the federal government in providing for development and operation of affordable housing was replaced by

an increasingly decentralized system, but with some continued funding support through more indirect mechanisms.[10]

Thus, by the mid-1980s, the predominant form of affordable housing production involved a fundamentally new approach. Although highlighted by the enactment of the low-income housing tax credit, discussed in the next section, there were other important changes in the affordable housing system.

Characterized by many actors, the new model was rooted in the local community—often distressed inner city neighbourhoods, where the need was clearly evident. The process was need-driven, not a creation of policy—at least not federal policy. There was a substantial level of civic leadership. Solutions were opportunistic, not program driven, and created by securing the diverse resources and expertise necessary to produce housing. However, while funding levels were reduced and increasingly indirect, they remained significant and, together with government policy, played an important role in nurturing the new PPP system.

1986-96: a period of consolidation

In stark contrast to previous eras, where programs directed the nature of affordable housing development, since the mid-1980s, PPPs have begun to shape the policy framework. There is considerable evidence of legislation and policy being developed purposefully to reinforce and expand the potential and scope of PPPs.

New partnership models and mechanisms continued to evolve in an opportunistic fashion. The key events that have strengthened the potential for PPPs in the decade since 1986 include:

- the creation of the Low Income Housing Tax Credit, as part of the 1986 *Tax Reform Act*;
- the 1990 *National Affordable Housing Act* that consolidated existing federal housing and community development programs under HOME, and reinforced locally developed programs and partnerships;
- a policy emphasis on expanding ownership opportunities for minorities and low-income households (Nehemiah, HOPE and HOME);
- an emerging secondary market for multi-family loans (including credit enhancement for affordable housing loan products), thus facilitating private participation; and
- strengthening the provisions of the *Community Reinvestment Act* for public disclosure of the performance of financial institutions.

The most notable positive event of the 1980s was the introduction of the Low Income Housing Tax Credit (LIHTC), as part of the *Tax Reform Act* of 1986. Providing a substantial tax benefit to investors in low-income housing, this has become the single most significant incentive for affordable housing production in the United States. The Enterprise Foundation estimates that the LIHTC is now associated with 94 per cent of the annual production of affordable rental housing in the United States, approximately 100,000 units each year (Enterprise Foundation 1996). By selling a stream of tax credits which private investors can use to reduce taxes annually over a 10-year period, projects are able to gain an infusion of equity, with no associated debt servicing cost—essentially free money. Generally, the LIHTC covers about one-third of the total cost of a project, leaving two-thirds to be funded or financed through other sources (Fallis 1990; Lea and Wallace, forthcoming). The LIHTC is discussed in considerable detail in Part 3 and in the case studies.

In terms of understanding how housing PPPs have evolved in the United States, the circumstances under which the LIHTC was created are perhaps more revealing than the details of the tax credit itself.

The 1986 *Tax Reform Act* removed the very favourable tax provisions of the 1981 *Economic Recovery Tax Act* (ERTA) by eliminating the preferential treatment of capital gains, reducing the depreciation period for residential property and imposing "passive loss" restrictions on using losses from residential property to offset tax liability on ordinary income. In combination with a reduction in marginal tax rates, these provisions significantly lessened the implicit subsidies to real estate investment (Case 1991).

The LIHTC was an 11th hour amendment to the 1986 tax reform bill, negotiated by an alliance of real estate and low-income housing advocates, in collaboration with congressional members from the northeastern states. This alliance successfully lobbied for the retention of preferential treatment of real estate investment, provided that the benefit flowed to low-income development.[11] Thus, while the net effect of the tax reform on multi-family investment and development was negative, it provided an important boost to private investment, specifically in low-income housing.

In addition to generating a new source of equity for affordable housing development, the LIHTC has a very substantial impact in expanding the institutional infrastructure around low-income housing production. Equity funds have been established in a number of states and localities, as well as by the major national intermediaries as conduits to assemble and allocate tax-credit-generated equity. The state-level equity funds have become intermediaries, providing technical assistance functions and helping non-profit developers through the project development process.

Partnering opportunities were further supported through the 1990 *National Affordable Housing Act*, specifically, the HOME Investment Partnership Program which provides federal funding to participating jurisdictions based on the development of broadly defined affordable housing strategies, and state or locally developed programs. The local initiatives could provide either rental or homeownership assistance, and could include tenant-based rental assistance, or new construction or rehabilitation funding.

Local matching of federal funds ($1 for each $4 in HOME funds) was a prerequisite, and a federal priority on rehabilitation was effected by providing more generous federal cost sharing when funds were directed for this purpose. By requiring both matching funding and development of local strategies, this federal action contributed further to the promotion of partnership activities.

While the general discussion to this point has suggested primarily multi-family rental development, many partnership initiatives have also involved homeowners, focussing on enhancing the capacity of low- and moderate-income families to become owners through counselling and education, and through more flexible underwriting practices that enable these households to qualify for mortgage financing.

Ownership among low- and moderate-income households was a central element of proposals brought forward by Secretary Kemp in the latter 1980s, legislated initially in demonstration programs and, subsequently, through the Nehemiah Program and HOPE initiatives (Home-Ownership for People Everywhere).

These efforts have the dual impact of creating opportunities to realize the goal of owning one's own home, previously unattainable for many families; and stabilizing formerly distressed neighbourhoods by introducing moderate-income owners as part of a revitalization process.

The Enterprise Nehemiah, Jackson and Charlotte Mecklenburg case studies illustrate this potential. These partnerships draw on public funding to upgrade community infrastructure and subsidize down payments and mortgage rates. At the same time, non-profit agencies undertake property acquisition, rehabilitation and resale, with financing from private lenders, which previously would not have provided mortgages to these purchasers or these neighbourhoods. The relatively low cost of existing properties is a significant factor that supports affordable ownership options.

Homeownership has been adopted as the central plank of the Clinton administration under the National Homeownership Strategy. Following a decline through the 1980s, homeownership rates improved through the mid-1990s, a function of favourable interest rates and economic recovery.

The National Homeownership Strategy (announced in 1995 in partnership with the National Association of Home Builders) aims to raise the ownership rate to 67.5 per cent by the turn of the century, effectively adding eight million new homeowners (ownership rates reached a record high of 66 per cent in 1997). This goal is being pursued, in part, by increasing access and opportunity for ownership among minority and low-moderate income households. Many partnership initiatives already focussed on neighbourhood revitalization have been further stimulated by this initiative, which effectively mobilizes both federal and private resources, and is evident in the efforts of the financial intermediaries and the government-sponsored enterprises discussed later.

The HOPE VI initiative, the most recent in a series of federal initiatives instigated in the late 1980s by former HUD secretary Jack Kemp to promote homeownership among low-income and public-housing residents, represents another example of the federal government embracing the PPP approach. HOPE VI, announced in 1993, will undertake the complete redevelopment of some of the largest and most distressed public housing sites, utilizing partnerships with private investors to reconfigure the sites with a greater mix of income and tenure options.

Under the mixed financing option of HOPE VI, housing authorities can enter into agreements with private developers for a share of ownership and net revenues. They often use the LIHTC as a device to obtain part of the capital, but also pledge part of the housing authority's operating subsidy to guarantee income from the mixed finance project. In these redevelopments, PPPs are being structured around the existing real estate assets (see Parkside Homes case).

Through the 1990s the stimulus for private-sector participation in PPPs has been directly facilitated and reinforced by three important pieces of federal legislation.

- The 1989 *Financial Institutions Reform, Recovery and Enforcement Act* (FIRREA) imposed community lending on Federal Home Loan Banks (FHLBs) and mandated public disclosure of CRA ratings.
- The 1992 *Federal Housing Enterprises Financial Safety and Soundness Act* required the two government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, to expand their existing secondary mortgage market programs to better accommodate affordable housing development and included specific targets for the purchase of multi-family rental loans targeted to low-income housing.
- Concurrently, the 1992 *Housing and Community Development Act* required HUD to implement measures to make credit more available through enhancements to induce private lenders to originate loans, and to encourage investors to purchase these loans (Wallace 1995).

The secondary mortgage market is an important feature of the U.S. housing finance system. Created through the role of government-sponsored enterprises (GSEs)—federally chartered but now private corporations specifically established with a mandate to purchase loans from individual lenders who originate the loan—package and resell loans as mortgage-backed securities, typically in large pools to institutional investors. These secondary mortgage institutions are very large; one of them, Fannie Mae, is the largest non-bank financial intermediary in the world (Diamond and Lea 1995).[12]

Together, these legislative actions enhanced opportunities for partnerships by encouraging and inducing new investors and new financing vehicles. FIRREA effectively imposed a tax on the members of the FHLB system by requiring them to fund the Community Investment Program and Affordable Housing Program (AHP). The AHP requires FHLB members to allocate 10 per cent of their annual income to fund this program. As illustrated in the Lincoln case study, the AHP provided an interest-free deferred loan, lowering the effective debt service cost on this project.

Although privatized, GSEs are seen to be supported by an implicit government guarantee and, consequently, have accepted a moral responsibility in supporting affordable housing initiatives. The GSEs have tended to favour a voluntary proactive role to avoid the more coercive imposition of legislation. GSEs support affordable housing production by developing financial products to purchase loans made on affordable housing from originating institutions. They ensure the flow of capital and lower its cost through credit enhancement and securitization of affordable housing loans.

With the GSEs and other intermediaries providing technical assistance and expertise to affordable housing groups, individual lenders are more willing to originate CRA-induced loans to affordable housing projects, especially since they can readily sell these loans if they follow the GSE's underwriting guidelines.[13]

Lenders can receive CRA credits both for originating loans or for purchasing them, once securitized by one of the GSEs. In the process of originating and servicing these securitized loans, lenders can generate healthy fee revenue and a competitive yield on their investment.

As the case studies reveal, the post-1986 availability of substantial equity through the provisions of the LIHTC effectively lowers the loan-to-value ratio, further reducing the risk to lenders participating (often via consortia) in affordable housing loans.

In combination, a very effective system has been created, integrating sticks and carrots. While the CRA acts as a stick, the blow is not only cushioned, it is avoided, by taking advantage of the carrots offered by the opportunities to sell affordable loans into the secondary market as well as opportunities to buy into affordable housing through tax credit equity funds (that also qualify under CRA guidelines as an eligible investment). With financing deals packaged this way, lenders are willing participants, they are not acting out of charity or even enlightened self-interest. Packaged well, these deals make good business sense.

By creating special initiatives like the Federal Home Loan Bank Affordable Housing Program or the many GSE low-down-payment initiatives, the financial institutions have created mechanisms to distribute and reduce risk and generate new opportunities for low-ratio conventional financing, from which they can build new lines of sound business in a niche market that previously did not exist.

The 1990s have witnessed the consolidation of PPP approaches, with innovative products being developed at all levels. Local housing partnerships and housing trust funds are developing specific programs to facilitate homeownership and rental rehabilitation and development. The GSEs are helping to develop skills and capacity in community organizations at the same time as they are creating new underwriting standards and vehicles that encourage private mortgage insurers and local lenders to implement their own initiatives.

At the national level, HUD has embraced PPPs as a way to stretch increasingly limited public funds. The primary remaining sources of direct HUD assistance to affordable housing development now are the Community Development Block Grant program, at least to the extent that communities elect to use the funds that way, and the HOME program, which is specifically directed to housing but as a block grant program.[14]

In another example of its less direct approach, HUD has joined with a variety of foundations and corporations to capitalize the National Community Development Initiative and has initiated a special program to encourage pension fund investment in affordable housing partnerships.

Conceptual framework for affordable housing production through PPPs

This section has traced the evolution of the U.S. housing system, particularly since the early 1980s, the period during which PPPs have emerged as a significant vehicle for the production or preservation of affordable housing. The section has identified a wide range of relatively independent, but mutually reinforcing, events that, in the aggregate, have created a housing system that both encourages and facilitates the formation of partnerships to produce or preserve affordable housing.

Although in any particular development or partnership, the specific mechanisms and measures vary, this can be represented by a conceptual framework that generalizes the U.S. public-private partnership approach.

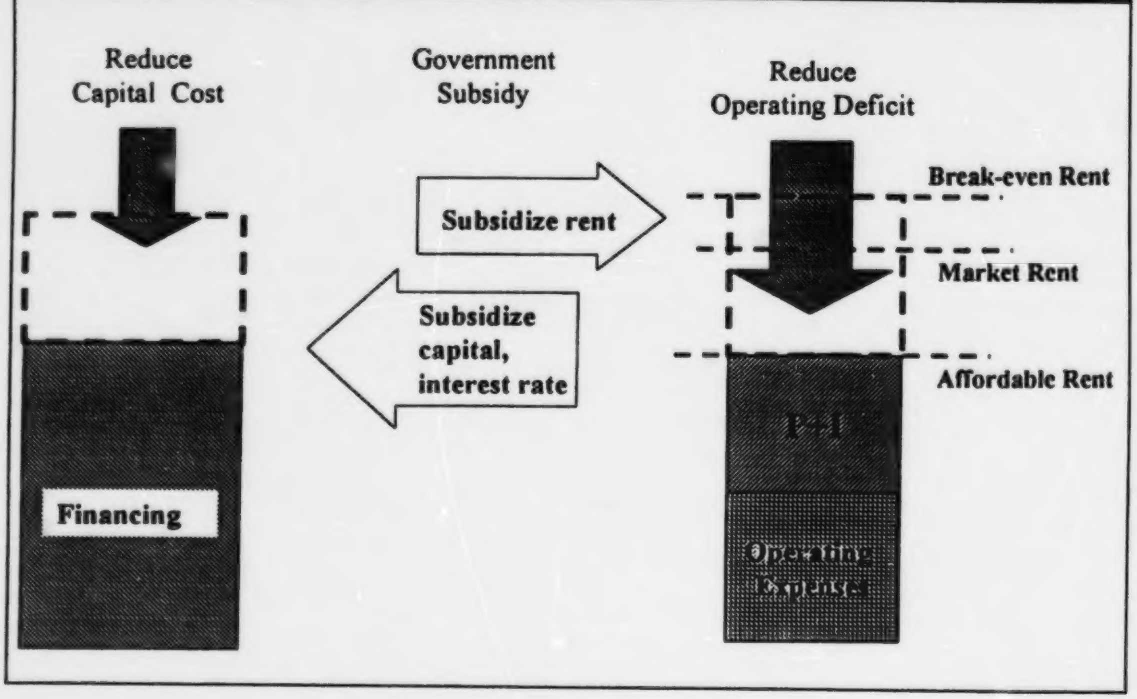
The preceding review of affordable housing production in the United States illustrates the shift from a relatively homogenous, so-called "plain vanilla," program-driven system involving only three key actors, to a much more dynamic and complex system. The new system is characterized by a multiplicity of participants in developing any one project, and considerable diversity in the nature of the arrangements used to procure affordable housing.

Prior to the early 1980s, affordable production typically required a developer (either for-profit or not-for-profit) and one private lender which alone provided both the construction and permanent financing, and held this loan in its own portfolio.

Typically, the FHA insured the loan. Affordability was ensured through the provision of some form of subsidy from HUD:

- project-based subsidies to reduce the interest rate or subsidize operating costs; or
- tenant or rent subsidies to ensure that rents are affordable to the assisted household.

Figure 1.1:
Achieving affordability: traditional model



This traditional model is illustrated in Figure 1.1 which reflects a typical project pro forma.

Total costs comprise debt service and operating costs (taxes, maintenance and administration) which together make up the break-even cost. For a project to be viable, the break-even cost needs to be at or below market rent levels. However, to be affordable to low-income households (which generate lower revenue), the break-even cost must be lowered still further. The difference between affordable rent levels and the break-even cost is often referred to as the affordability gap.

This gap can be, and traditionally has been, closed in a number of ways as illustrated in Figure 1.1. These can involve a capital grant that reduces the level of debt (P+I) that the rental revenue must carry; a subsidized interest rate (such as the Section 236 program in the United States and the Section 15 program in Canada); or alternatively, the rent level can be subsidized through a rent supplement or shelter allowance (e.g., Section 8 in the United States). In the traditional model, a single approach is typically associated with a specific program, although there are examples of stacking two programs, such as an interest rate subsidy and a rent supplement. The more recent partnership model is illustrated in Figure 1.2. A notable characteristic of the new partnership-based system is that the various measures and mechanisms used focus almost exclusively on reducing the effective debt servicing costs of the project (distinct from subsidizing rents).

Debt service costs are typically minimized through three provisions (Figure 1.2).

- Secure conventional financing at competitive, or even slightly below-market rates. This is pursued through measures that minimize the risk, such as mortgage insurance and other forms of credit enhancement, and through lender consortia. In the case of affordable homeownership initiatives, consumer education, counselling and monitoring are also utilized.
- Secure equity investment, facilitated through the sale of tax credits and grants from local government, housing trust funds or philanthropic foundations.
- Access favourable financing, such as that available through the issue of tax-exempt mortgage bonds, the FHLB's Affordable Housing Program, or in the form of loans from housing trust funds, or city and state agencies (including funds originating from HUD via CDBG and HOME allocations).

With the exception of those cases where tenants have been able to secure Section 8 vouchers or certificates (tenant-based shelter allowances), the rents are not directly subsidized; they are based on break-even levels. Aside from rent skewing to provide an internal subsidy from market level rents to below-market rents, affordability is achieved solely as a result of minimizing debt costs so the small net operating income (constrained by the low-income profile of tenants) can carry the repayable debt and break-even costs.

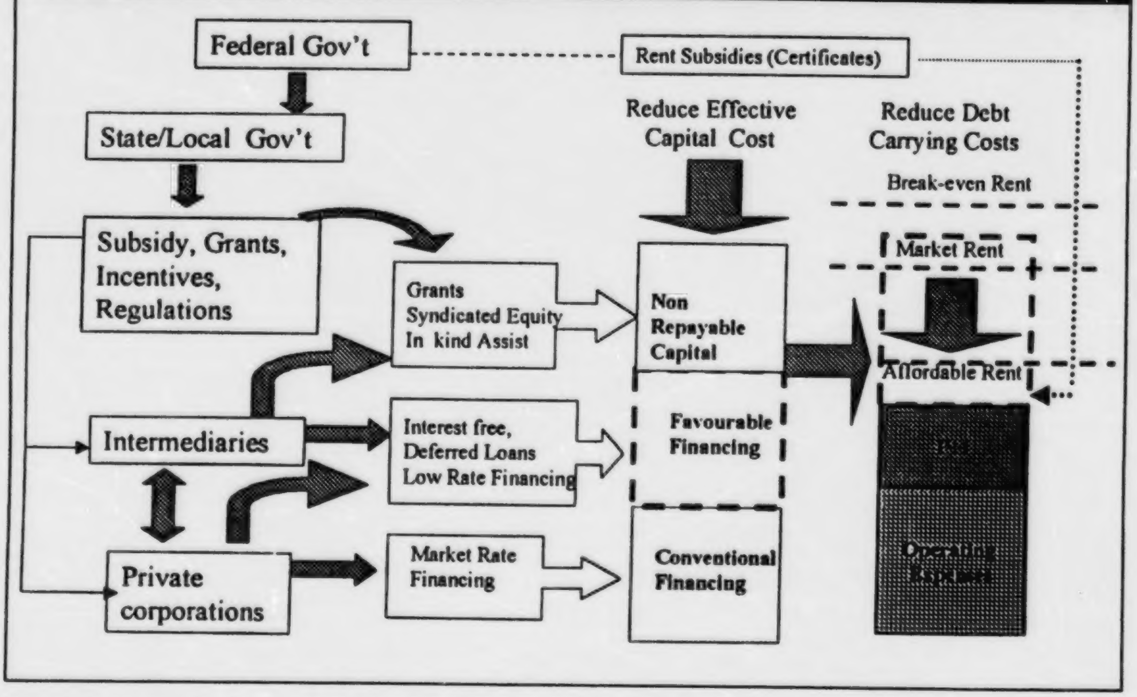
As illustrated in Figure 1.2, the layering of financing combines components of no cost and low-cost or deferred financing, enabling the project to operate with a manageable level of debt service, which permits the project to establish rents at an affordable level, without ongoing rent subsidies.

Measures to encourage public-private partnerships

The critical element in the shift to a partnership-based affordable housing system has been the process whereby private-sector participants have been brought to the table, willingly or otherwise. They joined the community and public sectors which were already motivated—largely by prevailing need (and, in the case of the public sector, the negative economic and social impact of poverty and urban distress).

Despite funding cuts, government has continued to acknowledge its ongoing role in addressing the housing needs of the poor. The Reagan-appointed

Figure 1.2:
Conceptual framework: U.S. partnership model



Commission on Housing (1982) articulated an ideological perspective that has pervaded U.S. housing policy (and social policy), favouring minimalist intervention and heavy reliance on the private sector, albeit with generous tax breaks and substantial block funding to the state and local levels. Budgetary constraints have maintained this emphasis on the private sector even under subsequent Democratic administrations.

As presented in the conceptual framework (Figure 1.2), and in the case studies, the private-sector role has more often than not been linked to the provision of development capital—the financing component of addressing affordability. Consequently, as implied in this brief review of key events, many of the measures and mechanisms that underpin PPPs are finance related.

Generally the mechanisms and measures can be classified into three categories.

Prerequisite building blocks are actions that are crucial building blocks, without which PPPs may not have been able to make any significant progress. These include measures that encourage private participation, primarily of a regulatory nature, as well as enabling activities, especially those of the intermediaries. The prerequisite elements include:

- *Community Reinvestment Act* (1977 with 1989/1995 refinements);
- federal housing and community development legislation (Community Development Block Grant and HOME Investment Partnership);
- tax-exempt mortgage bonds;
- tax code measures (especially the LIHTC); and
- the role of intermediaries (both financial and capacity building activities).

Supportive and facilitative mechanisms facilitate and encourage the private sector's involvement that has enabled PPPs to gain a strong foothold and to mature as a vehicle for affordable housing development. These encompass:

- housing trust funds;
- equity funds (related to the LIHTC);
- loan consortia;
- FHLB's Affordable Housing Program (AHP);
- expanding the role of the secondary market institutions (i.e., Fannie Mae's and Freddie Mac's affordable housing lending goals, products and support initiatives); and
- development of a secondary mortgage market for multi-family loans.

Innovation and refinement are creative responses that have been spawned by the prerequisite and supportive mechanisms. These include development of new mortgage products, new intermediaries and new partnerships. For example:

- private lender programs (e.g., First Union Affordable Mortgage in Pittsburgh, Wylie Erin project);
- local programs (e.g., Florida State Housing Initiatives Partnership);
- Community Preservation Corporation's (CPC) small-loan program;
- AFL-CIO-HUD Pension Fund Section 8 initiative (El Azteca);
- National Community Development Initiative
- local regulatory concessions (Affordable Dwelling Unit Ordinance, Fairfax);
- state mortgage insurance agencies;
- technical assistance in project development and financing; and
- consumer counselling/education.

For the benefit of Canadian and other readers not familiar with the specific mechanisms and measures available in the United States, these are described in greater detail in Appendix A. This appendix also describes the supportive role of foundations (largely focussed on creating the community infrastructure that lies at the centre of PPP efforts) and the important role of national, state and local intermediaries.

Part 2 of the report provides an overview of 15 illustrative case studies which have been assembled to show the range of permutations that characterize the partnership models now dominating the production of affordable housing in the United States.

Part 2: Illustrative U.S. Case Studies

This section presents 15 case studies to illustrate how PPPs have recently been used to develop affordable housing in the United States. Specifically, the studies provide examples of how the various measures and intermediary activities briefly introduced in Part 1 (and described in more detail in Appendix A) have been assembled to support the production of viable affordable housing projects.

In Part 1, PPPs are defined to include arrangements that draw in a combination of partners and resources, not just a single funding program, and share risks among the public sector, and non-profit and private interests. This includes the active participation of community-based, not-for-profit organizations.

To elaborate on this definition, many of the partnerships seek not only to share risk but, through the partnership process, to reduce risk by introducing a greater level of expertise to the development, underwriting and financing process.

The literature review identified a distinction between two types of partnership: more comprehensive ongoing partnerships and more specific project-based partnerships.

- Ongoing partnerships are formally established entities that develop and sponsor a range of programs to support housing rehabilitation, preservation or development. These seek to systematize the process of affordable housing provision and community revitalization by creating and expanding community infrastructure and ongoing partnership relationships.
- Many developments are undertaken on a more ad hoc basis with a partnership created specifically and solely for a particular project. They are a partnership in that they represent a collaborative venture encompassing participants from the community, public and private sectors. They draw on resources and mechanisms that are available to them and, in some cases, invent their own adaptation of existing mechanisms, but are not necessarily part of a community infrastructure directed at maintaining or expanding an affordable housing production system.

The terms of reference for the study directed the study team to focus on the latter, project-based partnerships, rather than the broader and more enduring ongoing partnerships. However, because of the pervasive presence (and often critical role) of the ongoing partnerships in the U.S. PPP environment, the analysis would be incomplete if these were excluded. Therefore, examples of both are included.

The projects were selected to provide a broad illustrative cross section of initiatives that encompass a range in project size, tenure, income levels, and mixed commercial and residential development. They canvass a range of mechanisms including the LIHTC, HOME, CDBG, CRA, loan consortia, housing trusts funded by state levy, use of linkage requirements/rent skewing, the use of tenant subsidies (Section 8) and an unassisted partnership. Figure 2.1 provides a summary of projects, indicating project characteristics against these categories.

A central objective of the study was to identify initiatives that have been pursued with little or no government expenditure. It was anticipated that these might hold the greatest promise for adaptation in Canada, given limited funding and the prevailing mandate of the Canadian Centre for Public-Private Partnerships in Housing. Considerable effort was expended to identify cases that did not require any government expenditure. But, in reality, few exist. Also, those that do not access public funding do not tend to serve very low-income households, nor do they produce very many units, as the examples included below show.

Figure 2.1:
U.S. case study profiles

		Project Type						Mechanisms without Public Expenditure					Mechanisms Which Involve Public Expenditure						
	# units	Rental	Ownership	New	Rehab	Mixed Income		CRA	GSE Special Goals	FHLB - AHP	Intermediaries		CDBG/HOME	tax-exempt Bonds	LIHTC	Housing Trust Funds	Equity Funds	Loan consortia	Other
Project Based Partnerships																			
Affordable Housing West, Lincoln, Nebraska	30	✓		✓				✓		✓	✓		✓		✓	✓	✓	✓	✓
Willis Road Commons, Dover Delaware	17	✓		✓							✓		✓				✓		
Wylie Erin Rental Development, Pittsburgh	24	✓		✓						✓	✓		✓						✓
El Azteca Housing Development, Laredo, Texas	50	✓		✓					✓		✓		✓	✓	✓		✓		✓
Rental Apartment - Tacoma, Washington	60	✓		✓				✓							✓	✓	✓	✓	
Rehabilitation																			
CPC Small Building Loan Program, Port Jervis, New York	10	✓			✓			✓			✓		✓					✓	✓
Harlem Distressed Properties Initiative, New York	61	✓			✓								✓	✓				✓	✓
Parkside Homes Hope VI Redevelopment Detroit, Michigan	920	✓	✓		✓	✓									✓				✓
New Homeownership																			
Voskamp Village Townhomes, Pittsburgh, Pennsylvania	10		✓	✓				✓					✓		✓				✓
Affordable Dwelling Unit (ADU) Ordinance, Fairfax County Virginia	30	✓	✓	✓		✓													
Catholics For Housing - Thornwilde Commons, VA	50		✓	✓		✓													
Ongoing Partnerships																			
Enterprise Nehemiah Development Corporation, Baltimore MD	300		✓	✓	✓						✓		✓						✓
The Charlotte Mecklenburg Housing Partnership Inc , NC	77+		✓		✓						✓		✓					✓	
Jackson Metro Housing Partnership, Mississippi	147+		✓		✓						✓		✓					✓	
Florida State Housing Initiatives Partnership, Florida	27000+	✓	✓	✓				✓			✓		✓	✓				✓	✓

The crucial fact is that, with such a proliferation of public or quasi-public mechanisms for public funding and facilitation of affordable housing partnerships, few potential projects would not be eligible for assistance from one or more of these mechanisms. Naturally, most projects take advantage of the options available. This tends to limit the number and range of unsubsidized PPPs available for examination.

The predominant mechanism used in producing affordable housing in the United States today is the Low Income Housing Tax Credit (LIHTC). The Enterprise Foundation estimates that the LIHTC accounts for 94 per cent of multi-family affordable housing produced.[15] Although every project has its own particular features, the general pro forma for LIHTC projects is relatively consistent, so the number of cases utilizing this mechanism presented in this study was deliberately limited.

The 15 case studies presented here were selected from examples identified by the study team drawing from personal knowledge, discussion with key informants involved in partnerships and from various publications and Internet sources that profile model and award-winning developments and partnerships. Each case illustrates some aspect of the mechanisms introduced in Part 1 (and detailed in Appendix A), and most reveal the considerable layering of financing that is characteristic of U.S. PPPs.

Overview of cases

The first five cases, all low-income rental projects, illustrate variations in the packaging of the LIHTC.

- Affordable Housing West, Lincoln, Nebraska, combines the LIHTC with a loan from the FHLB AHP. It illustrates the role of a state equity fund in facilitating tax credit financing. It also includes the packaging of permanent financing by an intermediary for secondary market sale to a pension fund.
- Willis Road Commons, Delaware, shows how HOME funds are used in combination with the LIHTC while a third part of the financing package was provided through a lender consortium. In this case, the developer was a public housing authority expanding its activities to non-profit housing.
- Wylie Erin, Pittsburgh, complements LIHTC equity with a variety of city housing initiative funds (including the city HOME grant funds), providing low-cost financing.
- El Azteca, Texas, integrates the LIHTC funds with a number of state and local financing sources, and profiles the recent HUD Section 8 Community Investment Demonstration (Pension Fund) Program. Fannie Mae securitized the loan and sold it to the AFL-CIO pension fund Housing Investment Trust.
- The Tacoma, Washington example combines LIHTC and CDBG funds with funding from the State Housing Trust Fund and first mortgage financing from a lender consortium—the Washington Community Reinvestment Association. The LISC National Equity Fund facilitated the flow of LIHTC equity into the project.

The next two cases profile developments involving rehabilitation and include strong private-sector participation.

- The CPC Small Building Loan Program project in Port Jervis, New York is unique in that it does not involve a community non-profit organization; it is solely a PPP. It uses a small property loan program developed by the Community Preservation Corporation (CPC), a lender consortium together with a city-operated community lending program utilizing CDBG and HOME allocations. The project is a small mixed-use property combining a tavern/restaurant with apartment units.

- The Harlem Distressed Properties Initiative demonstrates a partnership involving a private lender motivated by a desire to remedy bad loans in a distressed neighbourhood. The community sought to move ownership into the non-profit, community-controlled sector and the city played a key role in providing financing through its rehabilitation programs, funded in part with mortgage revenue bonds.

Broad community ongoing partnerships are profiled in Baltimore, Charlotte and Jackson. These illustrate neighbourhood revitalization efforts and show how relatively affordable, existing housing can be a valuable resource in improving opportunities for ownership while stabilizing previously distressed and declining areas.

- The Enterprise Nehemiah Development Corporation (ENDC) was created as a partnership between community groups, the City of Baltimore and the Enterprise Foundation to undertake the revitalization of a distressed area of the city. This initiative availed itself of funding from the HUD Nehemiah Housing Opportunities program, while the city used a state mortgage revenue bond issue to finance the home mortgages. A consortium of religious congregations provided critical financing.

- The Charlotte Mecklenburg Housing Partnership (CMHP) resurrected a severely distressed drug-ridden neighbourhood by combining an active policing role with acquisition of the existing properties that were owned primarily by absentee landlords. The neighbourhood has been transformed through an ownership and rehabilitation program funded with a city CDBG, in combination with first mortgages provided through a consortium pool administered by the partnership.

  Habitat for Humanity participated in building new infill homes and the partnership has also involved the Fannie Mae Home Team Partnership with National Basketball Association players contributing to the construction of six homes.

- The Jackson Metropolitan Housing Partnership (JMHP) also used affordable homeownership to stabilize and revitalize a neighbourhood. In an initiative facilitated by the Enterprise Foundation, city HOME funds were used to provide second-mortgage financing, in tandem with below-market rate first-mortgage loans from local participating lenders.

- The Voskamp Village Townhomes project in Pittsburgh provides another ownership example but involves new construction. A variety of public and foundation sources provided construction financing for the non-profit developer, while local lenders provided high-ratio financing under a target neighbourhood program.

- The Florida State Housing Initiatives Partnership (SHIP) represents a different form of facilitative partnership—using a state trust fund to provide seed funding to local communities which then create their own initiatives to provide affordable housing, combining these funds with other resources, such as CDBG and HOME. The trust fund is capitalized through a levy on documents registered in the land registry.

The two cases from Virginia provide relatively rare examples of affordable housing initiatives that were achieved with no public funding.[16]

- The Fairfax Affordable Dwelling Unit Ordinance represents a partnership between the county and private developers, drawing on the county's regulatory powers. The ordinance provides a density bonus, part of which must be used to provide affordable housing either for rent or for sale. Although not exercised to date, the for-sale units can be purchased at cost to expand the PHA's rental portfolio. The for-sale units can also avail themselves of an affordable mortgage program offered by a local lender, inspired by the CRA.

- The Thornwilde Commons development is an innovative approach instigated by a small church-based non-profit housing association in a creative partnership with a private builder. Enabling the private developer to build the last part of a subdivision and reduce ongoing carrying costs, this created 33 homes for sale, at an affordable cost to moderate-income households. As well, development fees earned by the non-profit association were turned back as a down-payment subsidy.

The final example is drawn from the ongoing HOPE VI initiative that illustrates a large-scale redevelopment of a severely distressed public housing site in Detroit. Parkside Homes involves demolition of part of this public housing property and rehabilitation/infill development to create a mixed income community. Undertaken with funding through HUD and the LIHTC, it involves a private development company as the project developer.

An assessment framework was developed to collect and organize the information for each case study. Each case provides:

- overview of the project and partnership;
- background context of the development, for both the project and the partnership;
- identification of the initiator/sponsor;
- partners involved and the nature of their participation;
- public funding programs accessed;
- packaging—how the individual elements and partners fit together;
- impact on the provision of affordable housing; and
- key features/innovations.

In addition, where applicable, details on project costs and financing are provided.

Overview and general observations

While these illustrative case studies are not a statistically representative sample of affordable housing PPPs, they do provide some insight into the broad range and potential of PPPs in the United States, as well as the complex financial structuring of the resulting developments, the characteristics of partnerships, and their impact on producing affordable housing.

The preceding section has provided a general overview of the cases developed for this study. Each case is described within a consistent assessment framework in Appendix B, which also provides some context and background. Here we provide a brief overview of some key observations using the categories of the assessment framework, namely:

- partners involved and the nature of their participation;
- public funding programs accessed;
- packaging— how the individual elements and partners fit together; and
- the impact on the provision of affordable housing.

The implications and lessons from these PPPs that might be applicable to Canada are addressed in the final part of the report.

Partners involved and the nature of their participation

The cases encompass a wide range of participants from the community sector, local and state agencies, HUD, foundations, intermediaries, both individual lenders and lending consortia, and pension funds.

As noted, there is a significant difference between the ongoing formalized partnerships (four of the cases) and those that arise solely on a project-specific basis. The latter, project-based partnerships, might be characterized as partnerships of convenience. Specific partners were invited to participate or, in the case of lenders, became involved as a result of a financing application made to them (or to a loan consortia in which they participate) mainly because they offered something that the project needed to be viable. That is, the vision or mission to produce affordable housing preceded the establishment of the partnership. In none of the project-based PPPs reviewed was the partnership created prior to the initial steps of project development.

Intermediaries, at the national, state or local level, were active in all but two cases, playing the role of community organizer and matchmaker.

Figure 2.2:
Case intermediaries

Case	Intermediary Involved
AHW, Lincoln	Enterprise/LIHF, State Equity Fund
Willis Road	Enterprise
Wylie Erin	Local redevelopment authority
El Azteca	Local economic development corporation
CPC	—
Harlem	Local community coalition
Tacoma	State Trust Fund/LISC
Voskamp	Local redevelopment authority
Fairfax ADU	County redevelopment authority
Catholics	—
Parkside	PHA
ENDC	Enterprise
CMHP	Local
JMHP	Enterprise
SHIP	State HFA

In a number of cases, the national intermediaries helped to build a local infrastructure that both enabled the development of the specific case and has remained in place to facilitate other developments. For example: the Center for Community Change in establishing the Equity Fund of Nebraska; and Enterprise in helping to establish the Jackson Metro Housing Partnership. In other cases, the national intermediaries brought in private equity partners, via their LIHTC equity funds (e.g., Tacoma). State housing finance agencies and the State Trust Fund also acted as intermediaries helping groups develop proposals, providing financing commitments and introducing the non-profit developers to private financing or to lender consortia (e.g., Tacoma and Florida SHIP).

Finally, local entities also played intermediary roles in attracting public and private resources and financing to the projects. These included both community-based intermediaries focussed more on community organizing (e.g., CATCH in Harlem), as well as public redevelopment agencies in Pittsburgh, New York and Laredo (El Azteca) which have their own loan and grant programs but also attracted private financing. In the CPC case, the small loan program of the lender consortium was integrated in the same proposal call competition as the local CDBG—one of the few instances where the public and private participants were linked at the outset.

Even though the 11 project-based partnerships have not necessarily established a formal ongoing vehicle for future development, as is the case in the four ongoing partnerships, they do share the key characteristic of PPPs: these collaborations contribute to both a sharing and, arguably, a reduction of aggregate risk for all partners.

The community organizations are motivated by their commitment to serve a low-income clientele; they are unlikely to walk from a project that experiences financial difficulty. Their strong commitment is enhanced by the various intermediaries which, through technical support, model documents and professional services, help to smooth the development process.

The larger established intermediaries also provide a greater level of comfort to private investors and lenders. Public participants (often the housing and redevelopment agencies within local government) and the programs they provide, also contribute to mitigating and reducing risk. In part, this is achieved through technical support but, perhaps, most important by "putting their money where their mouth is." More often than not, public funds flow in first and take a subordinate position in the event of default. Although localities benefit from federal block transfers, under the HOME and CDBG matching formula, they are still required to put up 20 per cent of the funding from their own sources.

Public funding is a significant aspect in reducing risk for private lenders. In addition to taking subordinate positions, the public funds (and where applicable LIHTC equity) significantly reduce the loan-to-value and debt coverage ratios on the privately held first mortgages. Dipasquale and Cummings (1992) have asserted that, in many respects, PPP projects targeted to low- and moderate-income families may represent less risky loans than market-rate multi-family development. Lenders involved in PPP affordable housing projects report strong loan performance, with rare defaults, in stark contrast to the overall multi-family default rate.

Figure 2.3:
Private financing rates in rental cases *

Case	Rate %
AHW, Lincoln	8.75
Willis Road	8.0
Wylie Erin	n/a
El Azteca	8.60
CPC	9.75
Harlem	n/a
Tacoma	9.25
Voskamp	8.5

Note:
*These loans originated between 1993 and 1996 when market rates for long-term, fixed-rate loans ranged between 7.5 and 8.5% (properties with 1-4 units).

Despite the relative security of these PPP loans, private lenders generally earn a competitive rate of interest, either market or only slightly below. This is evidenced in the case studies (Figure 2.3). For private lenders, these partnerships offer a unique low-risk market niche where they can develop new business. To the extent that fees are generated through origination and servicing, while the secondary market provides a conduit to sell the loans (a feature evident in a number of the case studies), the business case to participate is often enhanced.

Figure 2.4:
Distribution of financing sources

	Public %	LIHTC %	Private %
New Rental			
AHW, Lincoln	12	48	40
Willis Road	33	43	24
Wylie Erin	31	64	6
El Azteca	17	47	36
Tacoma	26	57	17
Rehab Rental			
CPC	35	0	65
Harlem	73	0	27
Homeowner			
Voskamp	45	0	55
Catholics	0	0	100
ADU	0	0	100
Ongoing Partnerships			
Parkside	79	21	0
ENDC	99	0	1
CMHP	20	0	80
JMHP	20	0	80
Florida SHIP	n/a	0	n/a

Notes:
Includes cash, grants and loans.
Rental reflects permanent financing only.
Ownership projects reflect development financing only.

Public funding programs accessed[17]

Although the term PPP explicitly identifies a public role, the extent of this role in U.S. partnerships, especially in terms of financial participation cannot be understated. All but one case reveal a critical infusion of public funds, and this infusion was usually a precondition to attracting and securing private investment. Public funds effectively lever private capital; however, the case studies reveal that a large amount of public financing and subsidy is typically involved in most projects, certainly those seeking to serve very low-income (below 50 per cent of area median income, AMI).

The public funding in these case studies almost always derived from federal block grant programs (CDBG and HOME) and ranged from 12 to 73 per cent of total costs. In all cases where local government financing programs were used (drawing on these federal funds, but where HOME funds are used with municipalities contributing $1 for each $4 federal), this money was used first, both to minimize the accumulating cost of construction financing and to minimize risk to the private lender involved in development loans. For example, in the Willis Road project, HOME provided almost all the construction financing but was repaid once permanent financing was arranged through a lender consortium and with increased receipts from the syndication of the LIHTC.

HOME funds (combined HUD and local contribution) were generally provided either interest free or at low rates ranging from one to three per cent. When the project was financed with some LIHTC equity, interest was generally charged in order to maintain the largest possible eligible basis for the tax credit (i.e., the eligible project base for application of the tax credit is adjusted for interest-free loans and grants).

The five rental cases involving new construction availed themselves of the LIHTC. Although this reflects private equity investment, it effectively represents a public subsidy since the tax credit is publicly funded (as a tax expenditure). In the cases profiled, the LIHTC equity represented, on average, about half of the cost of the project.[11]

Moreover in all of these five cases, the LIHTC equity was augmented by a low rate and often deferred loans drawing either from local CDBG or HOME allocations.

The two rental rehabilitation projects relied solely on various city rehabilitation financing programs, again deriving from CDBG and HOME funds. The Harlem rehabilitation involved one of the highest levels of public financing (73 per cent).

The homeowner cases involving project-based partnerships have a smaller public-sector role. There is, in fact, no public financing or funding in the Affordable Dwelling Unit (ADU) and Catholics for Housing (indeed this project is a non-profit private partnership with no public partner). In the Voskamp Village Townhomes development, public funds were used to help finance construction only, while the private financing was taken out by individual buyers. Individual homebuyers were able to access either a city assisted mortgage program—the Pittsburgh Homeownership Program—or one of the special affordable mortgages offered by the private lender.

The Baltimore (ENDC) development, which combined some rehabilitation with new construction, accessed exclusively public funding vehicles. It drew on HUD Nehemiah funds, a small city-deferred loan and mortgage financing raised through MRBs sold to private or institutional investors. Non-conventional private financing was provided as an interest-free loan with funds raised by local church congregations.

CMHP and Jackson both relied on public capital to fund their acquisition/rehabilitation neighbourhood redevelopment initiatives, but also drew on loan pools for consortium lenders to fund the majority of the permanent financing. Here, however, the partnership funded the first 10 to 30 per cent of the permanent financing and took on the greatest risk, while private funds cover the remaining 70 to 90 per cent of the loans.

Packaging: how the individual elements and partners fit together

"What appears as a logical sequence of activities is in practice a messy opportunistic process" (Suchman et al 1990).

This characterization of PPPs is clearly reflected in the 11 project-based cases profiled here. This messy process extends to the formation of the partnership itself as different partners—foundations, benevolent and conventional lenders and intermediaries—became involved through a back and forth process in which the proponent explored all possible ways of filling the so-called affordability gap. Ultimately, the partnerships were completed as a combination was achieved that resulted in a viable project.

The public role in the partnership appears to have been critical in providing seed money, construction financing, absorbing risk and leveraging private involvement. The influence of community lending legislation is not directly apparent in these cases, but it underpins the creation of the lender consortia as a key part of the financing packages in the Charlotte and Jackson partnerships, and in the project financing in CPC, Tacoma, Affordable Housing West and Willis Road.

The central characteristic of all the developments is the layering of a variety of funding and financing sources. Consistent with other research (e.g., Abt Associates 1993) these partnership developments all involved multiple financing sources, ranging from three in Willis Road to eight in both the Affordable Housing West in Lincoln and Voskamp Village Townhomes. These combine public, private and LIHTC investment.

Figure 2.5:
Number of financing sources

AHW, Lincoln	8
Willis Road	3
Wylie Erin	7
El Azteca	5
CPC	4
Harlem	4
Tacoma	6
Voskamp	8

As noted earlier, the packaging in the broader ongoing partnerships is more purposeful and evolving. For example, in CMHP, the creation of the Fannie Mae Home Team Partnership provided a new element to an existing partnership and enhanced the marketing of homes in what was a very transitional neighbourhood.

Working as a broad-based coalition of community, civic and business interests (and often drawing on advice from the major intermediaries), these locally established partnerships have developed increasing levels of expertise and have become relatively sophisticated. They have developed the ability to identify voids and to formulate specific programs to address these weaknesses in the local housing system, for example, the creation of transitional lease—purchase programs, debt counselling programs, employment skills training and development of rental properties for households not yet ready or qualified to take the step to homeownership. These broader-based partnerships also have an effective, and usually influential, network of corporate leaders to pull strings and facilitate new initiatives.

Impact on the provision of affordable housing[19]

Targeting of the affordable units developed in many PPPs is heavily influenced by the programs accessed as part of the overall financing packages, primarily the LIHTC and HOME.

As discussed earlier, to qualify for the LIHTC, a certain proportion of the units must be targeted: either 40 per cent of the units to households with incomes under 60 per cent of AMI or 20 per cent to households below 50 per cent AMI. Further, units must be affordable at no more than 30 per cent of the gross area median income for rent. (Note that this benchmark is not specific to the household, but to an area-wide reference point; the individual family may pay greater than 30 per cent). Because the amount of tax credit is proportional to the number of low-income units, most sponsors target 100 per cent of the units.

Similarly, HOME directs assistance to recipients generally of low and very low income. For rental housing, at least 90 per cent of HOME funding must benefit families at or below 60 per cent of AMI; with the other 10 per cent below 80 per cent AMI. Homeownership assistance is directed at families at or below 80 per cent AMI.

Not surprisingly, the units developed in case study projects where either LIHTC or HOME funds were involved fall below the 80 per cent AMI low-income threshold. More surprisingly, the units developed under the Fairfax ADU, where no public funding is involved, also meet the 80 per cent criteria.

For cases involving affordable homeownership, the target again reflected the 80 per cent AMI criteria as a goal, with provision to serve households up to 115 per cent or 120 per cent of AMI. In Charlotte for example, CMHP limits the number of households accepted with incomes above 80 per cent AMI to a maximum of one-quarter of the homes, although in Genesis Park only 10 per cent were above this threshold). In the CMHP case, this is not a legislated limit; as they do not access HOME or LIHTC, it is a guideline developed by the partnership.

A common feature of all the projects, except those in Virginia, was that there was very little income mixing, beyond that within the affordability thresholds. That is, no projects included market rate households except the ADU project and Catholics for Housing. In these cases, the incidence of low-income affordable housing was very small in comparison to the total project—18 of 144 units in the for-sale development; 12 of 182 in the rental property.

It is not clear how far below these thresholds the initiatives penetrate although, from the rent and purchase prices noted, it is unlikely that households much below 30 per cent of AMI (i.e., the families with very minimal incomes) can be served. In three projects (Lincoln, El Azteca and Harlem), ongoing Section 8 tenant assistance was provided to ensure that the break-even rents would be affordable to these lowest-income households although in the Harlem case, cancellation of Section 8 new commitments eliminated this expectation.

Distinct from the earlier federally directed programs (and remaining as a feature of ongoing Section 8 assistance), the rent structure in most new affordable housing production (particularly that under LIHTC and HOME) is flat—premised on project economics, they are not set as a percentage of income. Nor are beneficiaries selected on a point rating, worst first system, as is the case in Section 8 and public housing.

Figure 2.6:
Targeting within each case study
(as % median area income)

	# Units	Very Low <50% %	Low (50-80%) %	Moderate (80-120%) %
AHW, Lincoln	30	80	20	
Willis Road	17	40	60	
Wylie Erin	24	50	50	
El Azteca	50	100		
CPC	10		100	
Harlem	61		100	
Tacoma	60	25	75	
Voskamp	10		0	100
ADU	30	33	66	
Catholics	50			100
Parkside	920	100		
ENDC	300		100	
CMHP	77+		90	10
JMHP	147+		100	
SHIP	27,000+		100	

Nelson and Khadduri (1992) suggest that the new models—those illustrated in these PPP case—do not encourage, and perhaps preclude, households with incomes well below the nominal eligibility threshold. A 1996 report to Congress by HUD, (on worst case housing needs), confirmed these concerns:

> The number of households with worst case needs reached an all-time high of 5.3 million in 1993. After growing by 1.1 million between 1978 and 1991, the number of households with unmet worst case needs for housing assistance rose another 400,000 between 1991 and 1993 and reached an all-time high of 5.3 million households.
>
> Federal programs that supply affordable housing—the HOME Investment Partnership (HOME) program and the Low Income Housing Tax Credit program—must be complemented by continued expansion of tenant-based rental assistance to help relieve worst case housing needs. Without a tenant-based subsidy, extremely low-income households are not likely to be able to afford the housing created by these programs.

In short, the case studies reflect a general characteristic of many recent affordable housing projects, typically developed under some partnering arrangement. They seem to be an effective supply-side approach for low- to moderate-income households, but alone, they have been found lacking in terms of replacing the deep targeting in previous programs, especially those with tenant-based rent geared to income payment formulas.

Conclusions

This overview illustrates the characteristics, functions and impacts of these specific PPP case studies in developing and preserving affordable housing. The individual cases described in Appendix B provide further details on each partnership.

As noted at the commencement of this section, these are not necessarily a representative sample of PPPs involved in affordable housing. They were selected to illustrate a range of partnership arrangements. Nonetheless, they do reveal some common characteristics and prerequisite conditions for the creation of PPPs. These are discussed in Part 4 of the report. Prior to this, Part 3 reviews the context of affordable housing production in Canada as well as recent attempts to develop PPPs in this country. A comparison of the experience of the two countries is then used to highlight lessons for Canada in Part 4.

Part 3: Canadian Context and Case Studies

While the focus of this report is on the U.S. experience in developing and utilizing PPPs, the ultimate objective is to identify possible lessons that might help to strengthen and broaden current efforts to initiate PPPs in Canada. To provide a basis for comparison with the U.S. experience, this section briefly reviews the context in Canada and outlines seven case studies that illustrate how PPPs are evolving here.

Compared to the United States, the Canadian experience with PPPs is a more recent and, to date, more limited phenomenon. The imperatives for PPPs simply did not exist to the same extent in Canada as they had in the United States since the early 1980s. There are a number of factors that underpin this slower evolution.

- The non-profit sector in Canada was not as motivated to develop alternatives as its U.S. counterpart.
- Urban distress was evident to a much less limited degree, so municipal leaders did not have the same motivation to respond with intervention programs.
- The incentives for private participation—in the form of both sticks (e.g., CRA) and carrots (e.g., tax advantages)—did not exist or were less advantageous for private investors and corporations.
- The community-based non-profit housing delivery network was well established and financially supported by ongoing non-profit funding programs—a situation that had prevailed consistently over a period of two decades.

The later factor is particularly important. In 1974, there was a key divergence in policy directions in the two countries. The United States embarked on an approach founded on providing incentives for private development and tenant-based shelter allowances. Canada meanwhile embraced supply programs with community-based non-profit groups as the primary production vehicle.

While the U.S. non-profit sector was essentially precluded from affordable housing development, in Canada this sector was actively nurtured. In addition to establishing non-profit housing programs, Canadian governments directly promoted the growth of a non-profit infrastructure in the form of seed grants to help establish non-profit resource groups. Groups were then self sustained by development fees, which were capitalized as eligible project costs.

Even as funding levels fluctuated between 1973 and 1993, the pre-occupation of the non-profit sector in Canada was on delivering housing through various incarnations of non-profit programs and, when necessary, lobbying for the renewal or preservation of program funding levels. Canada developed what some perceived to be one of the best and most efficient non-profit housing systems in the world (Dreier and Hulchanski 1993; Hornburg and Pomeroy 1995). In contrast to the United States, the non-profit sector was not propelled to seek out or develop alternatives. In short, a certain level of complacency characterized the Canadian environment over this period. Although many advocates felt funding levels should be increased, few contemplated the possibility that these programs would be eliminated in their entirety.

By the mid-1980s, a number of factors impinged on this situation, and laid the foundation for the exploration of alternatives and PPPs. First, a new federal government was elected on a platform of spending restraint and constitutional reform. A new era of cooperative federalism arrived which, in the housing area, saw a significant effort to induce provincial spending in housing. Housing policy was increasingly shaped by federal and provincial/territorial "partners."

Second, the mid-1980s witnessed the emergence of PPPs in the United States, with many major U.S. cities establishing formal ongoing partnerships. As has traditionally been the case, Canadian policymakers and housing advocates kept a watchful eye on the U.S. experience. It was simply a matter of time until some of these ideas began to attract attention in Canada.

Third, real estate booms in the 1980s heightened concerns about housing affordability, most particularly in relation to access to ownership in some of the larger urban centres. The larger municipal non-profit housing agencies had access to municipal resources—most notably land—and began to experiment with joint ventures as a way to couple the expertise and efficiency of private development with the public objectives of the municipality. Over the latter part of the 1980s, a handful of joint ventures emerged, mostly located in the larger urban centres where the affordable housing problem was most acute, but also where municipal expertise was strong and private interest high.

With partnerships proliferating south of the border by the latter half of the 1980s, it is not surprising that the term PPP entered the lexicon of the housing sector in Canada. A 1987 conference to celebrate the International Year of Shelter for the Homeless embraced partnerships as the theme of its agenda for action, New Partnerships: Building for the Future. In a separate symposium, the Canadian Real Estate Association similarly identified the need and desire to develop PPPs, building on the specific development and leadership expertise of the private sector (Van Dyk 1991).

One year later, the 1988 annual congress of the Canadian Housing and Renewal Association (CHRA) included a workshop on PPPs. The proceedings of the session observed "in the face of the current affordable housing crisis in Canada, the public and private sectors are beginning to work together in an attempt to develop creative long term solutions to the country's social housing dilemma" (Canadian Housing 1989: 57).

The notion of PPPs as a vehicle to stretch limited public dollars became increasingly evident as governments struggled to manage the deficit problem. CMHC was no exception to this trend, with its 1989 Strategic Plan articulating the need to work with others and to develop a better consensus on partnership approaches that could accommodate private motive and pursuit of broad social goals. The most explicit endorsement of this approach is found in the closing remarks to the Canadian Housing Finance Conference sponsored by the then federal Minister of Housing in 1991. The Minister announced his intention to establish the Canadian Centre for Public-Private Partnerships in Housing (CCPPPH) with a mandate to encourage and promote the creation of partnerships across the country.

The CCPPPH was established as a "catalyst, initiator and source of best advice to advance and encourage partnerships" (CMHC 1996: 25). Its focus is on promoting the development of affordable housing *that does not require ongoing government subsidies to operate*—an important feature, highlighted in the case studies.

In addition to providing advice and transferring information from successful ventures, the Centre provides access to project development funds (PDF—interest-free loans which are capitalized and repaid once permanent financing is arranged, or written off if projects do not proceed) and also facilitates mortgage insurance. It also assists in developing innovative financing arrangements and works with the CMHC underwriters to develop exceptions to standard underwriting criteria necessary to facilitate these loans. Beyond underwriting exceptions, there are no concessions on fees and premiums for PPPs assisted through the CCPPPH.

The CCPPPH's involvement is primarily with non-profit initiatives, many of them serving seniors or special needs clients, although some have been homeownership initiatives directed to moderate-income households. Because no new financial subsidy is available, these initiatives have sought either to generate equity through fund-raising or direct contributions from residents, or have accessed concessionary arrangements on land, typically through partnerships with municipalities.

The financial models assisted by the CCPPPH encompass:

- Life lease projects, developed by non-profit groups with seniors contributing an equity contribution while the project obtains a blanket mortgage on the residual debt. Occupants then pay a prorated rent to cover their share of the mortgage plus operating costs. CMHC provides mortgage insurance on the construction loan and waives standard requirements for a borrower covenant.
- Equity cooperatives, similar to life lease, these involve a construction loan and individual mortgages to cooperative members using the First Home Loan Program (95 per cent mortgage). The residents must raise the five per cent down payment from their own sources.
- Non-profit-sponsored nursing homes and retirement facilities—many existing facilities have land and take on fund-raising for donations of labour and cash. Those with older projects (with built up equity and reserves from existing operations) are also able to use this equity to lever private financing. Construction and permanent loans are insured by CMHC (usually to cover 60 to 75 per cent of costs).
- Homeownership equity-sharing initiatives involve municipal land, typically provided on a lease for nominal value with buy-out at some predetermined term when it is expected that the owner will be in a position to secure refinancing. Land provides mortgage security.
- Non-profit/municipal joint ventures with private developers involve various site/project-specific features. Often the municipality provides land on beneficial terms, and may offer zoning concessions in exchange for the developer allocating some number of units to a non-profit group.

The key feature of most of these CCPPPPH arrangements is that some modest underwriting exceptions were made (waiving personal covenants, with the motivation, track record and assets of established non-profit organizations implicitly substituting for the legal covenant). In some cases, new legal documentation is required (and is subsequently shared), but the housing is not targeted to the traditional low-income clients of public and non-profit housing (with the exception of seniors).

Many of the partnership projects in which the CCPPPH has been involved to date have provided specialized housing for seniors who often have equity from sale of homes and who can afford support services. Projects seeking to serve lower-income family households have not yet been able to make project economics work, except in lower-priced markets where affordable house prices have enabled some low-income homeownership initiatives to be developed.

Also, in projects undertaken to date, the incidence of private participation is noticeable by its absence. These are largely non-profit initiatives and, in some cases, non-profit public partnerships. A few cases, such as those included in the case studies do involve private developers in joint ventures, but there is little evidence of any participation among the mortgage-lending and financial community—beyond their traditional business of funding insured loans.[20]

A final feature of the Canadian context that is also indirectly promoting PPPs, is the National Enablement Demonstration Initiative (Homegrown Solutions), a small seed grant program, funded by CMHC and delivered by the Canadian Housing and Renewal Association (CHRA). This initiative provides small grants up to $20,000 to community groups to help them develop new ideas to respond to affordable housing needs in their community. Grant recipients are encouraged to draw on local resources such as existing property, materials, and expertise and sweat equity. This initiative was implemented only in 1995 and, through a proposal call process in both 1996 and 1997, has funded 31 initiatives across the country. Because they are encouraged to identify local resources and local solutions, these efforts are starting to forge partnerships encompassing local government, service groups and in some cases the private sector, represented by real estate brokers in two communities and by credit unions in another two initiatives.

Seven Canadian case studies have been prepared to illustrate the range of experience to date in Canada, and to provide some comparison with the U.S. approaches documented earlier. The presentation follows the same format used in the U.S. cases, and tries to illustrate the range of experience in Canada.

The Toronto and Kamloops examples identity various aspects of joint ventures, including the creative use of income tax provisions, municipal land contributions and private development expertise. The Kennebec senior project illustrates the use of existing land and fund-raising activities. The Hochelaga-Maisonneuve case does rely on government subsidy programs but illustrates a recent partnership effort focussed on taking advantage of the relatively affordable existing stock through a rehabilitation partnership. The second Montréal case (Investment Fund) and Winnipeg case reveal emerging efforts to secure a new source of capital. The latter two cases are notable in the level of private-sector participation—a feature that has been relatively rare in the Canadian experience. The key features of the Canadian case studies (each appended with more detail) are as follows.

In the Elizabeth/Chestnut Rental Project, the City of Toronto's non-profit housing corporation (Cityhome) used a city-owned site and an innovative joint-venture arrangement in which rental income from a commercial component was used to subsidize operating losses on an affordable rental apartment project. Cityhome brought in a private-sector joint-venture partner to lease the land, undertake the construction of the apartment building and lease it back to Cityhome to rent to tenants.

The financing package included an interest-free loan from the provincial government (under the Renterprise program). A critical component of the financing package was the leasing arrangement whereby the private-sector joint-venture partner was able to access capital cost allowance (depreciation losses) from the project as deductions against income from other sources.

The Royce Dupont initiative, also in Toronto, is a more recent joint venture between the city housing agency and a private developer. The city provided the land at cost and used a silent second mortgage to discourage speculation. The endeavour produced townhouses for sale at a level significantly below private market prices and affordable to modest-income earners seeking to access ownership. When initiated, the development was planned to incorporate both affordable for-sale units as well as a non-profit housing development. The elimination of the provincial non-profit program resulted in the entire site being developed under the affordable ownership model.

Kennebec Manor Seniors Housing in Saint John is a rental apartment project, built with donated labour, and financed by donations plus a commercial mortgage. It was built next to a nursing home, in order to provide housing for family members of the nursing home residents. The nursing home had been in operation for a substantial period and its sponsors had a good track record in loan repayments, plus significant equity—key factors in the decision of CMHC to underwrite the high-ratio loan required to finance the project.

The Kamloops Legion case involves a partnership between the Canadian Legion with a private developer and the city, to provide low-cost ownership and rental housing in downtown Kamloops. The developer is building a 48-unit strata title project for sale to Legion members at below-market prices with seven units retained for the municipal affordable seniors housing pool. The city has provided a 99-year lease on a city-owned site, structured with a deferred payment in exchange for the seven seniors housing rental units.

The Winnipeg Housing Opportunities Program (HOP) represents a new initiative seeking to establish a dedicated trust fund, using interest from real estate broker trust accounts. This will be used as a revolving loan pool to finance acquisition and rehabilitation of an assisted homebuyer program. Private partners are primarily real estate interests that are seeking to generate new homebuying opportunities, while benefiting the community through revitalization and increased access to ownership among households who may not otherwise have been able to achieve ownership. The HOP has also secured capital through a tripartite partnership—The Winnipeg Development Agreement.

Another effort to develop a dedicated trust fund is the Fonds d'investissement de Montréal (FIM), Recently created in Montréal as an investment pool to support the acquisition and rehabilitation of existing properties in neighbourhoods suffering from physical and social decline, it is motivated by civic, business, labour and philanthropic interests that wish to stop the spiral of urban decline, protect existing investments and stimulate new investment and employment. The FIM will provide second mortgage financing to assist non-profit and co-operative associations in acquiring and rehabilitating existing properties.

The Hochelaga-Maisonneuve (H-M) neighbourhood revitalization in Montréal is a pilot project, one of a number being initiated under a new program in Québec to revitalize central neighbourhoods. It represents a partnership between the province and city, both equally sharing the $40 million cost of the initiative (total for five neighbourhoods), and the property owners in these communities. With some exceptions, the owners (including both owner-occupants and rental landlords) are required to provide one-third of the rehabilitation cost while the program covers the remaining two-thirds. This case study is unique in Canada in the significant level of public funding being provided by both the province and city. The program targets the most distressed neighbourhoods in Montréal. The joint investment is motivated by a desire to stop the trend of decline, to stabilize these inner city neighbourhoods and, ultimately, to stimulate private reinvestment. The approach is based on strategic public investment to stimulate revitalization efforts in the designated areas.

Overview and general observations

These Canadian cases represent a more limited set of examples and are intended to illustrate both the range of PPPs in Canada and to provide a basis for comparison against the previously discussed U.S. cases. We follow the same assessment, to review the nature of partnerships, mechanisms used, public funding programs accessed, packaging and impacts on affordability.

Partners involved and the nature of their participation

The most distinct feature of PPPs in Canada is the absence of any public funding (except as provided in the Montréal H-M case). Other key characteristics are the small number of partners and the absence of any intermediary organizations. Although the CCPPPH is trying to develop a role as a technical adviser, its activities are quite limited when compared to the U.S. intermediaries.

Only by using a fairly liberal definition of partnership do these cases qualify as PPPs. The extent of partnering and risk sharing is narrow compared to the U.S. experience. This is likely a function of the lack of both sticks and carrots in the Canadian system.

CMHC is involved in four of these cases. In Kamloops and Kennebec, CMHC provided mortgage insurance with a modest relaxation in underwriting guidelines (track record of the non-profit organization was accepted in lieu of covenant). In Royce Dupont, individual homebuyers may access the First Home Loan Insurance Program to minimize their down payment. In Montréal (H-M), CMHC contributed a grant under the Affordability and Choice Today (ACT) Program.

The Elizabeth/Chestnut project involved the city non-profit housing agency (Cityhome), a private developer and the province (through the Renterprise rental loan program).

The municipality was a major participant in Hochelaga-Maisonneuve and played an important role in both Kamloops and the Toronto projects—either as instigator (Toronto) or facilitator (Kamloops). The FIM is also an outgrowth of the city's housing agency, although established independently.

The Winnipeg and Montréal (FIM) cases are at the cutting edge of the Canadian experience. Both have researched U.S. PPPs and are trying to develop broader-based city partnerships with significant private- sector participation. While it remains to be seen how successful these will be, they already represent a significant departure from the Canadian experience to date. Both these cases, together with the other Montréal case (H-M), take advantage of relatively depressed real estate markets with an abundance of low-cost existing stock that lends itself to a rehabilitation initiative that can be used as a catalyst to lever private investment.

With the exception of the broad financial partnership recently created in Montréal (FIM), there is extremely limited evidence of active participation from the Canadian financial and lending community in these or any other partnerships—a very substantial difference from the United States.

Typically, the Canadian cases have not found low-rate mortgage financing, other than (temporary) the Ontario Renterprise program (Elizabeth/Chestnut). Another possible exception is the Montréal FIM, where an eight per cent rate on second mortgage financing in projects without any equity may represent a below-market yield (relative to risk).[21]

Public funding programs accessed

Perhaps the most noteworthy feature of the Canadian experience is the very limited extent of any public funding in the various partnerships reviewed, with the obvious exception of H-M. Even when provided in the other cases, the extent of direct public financial assistance was very minor—primarily deferral or forgiveness of interest. In the Elizabeth/Chestnut case, a provincial interest-free loan was used, and in Kamloops there is an implicit subsidy in the deferred land lease payment. The municipality contributing the land to the project (although it retains ownership through Cityhome) also facilitated Royce Dupont. In no case has public funding been available as the lever to attract private financing, or concessionary loans—a central feature of the U.S. system. This is one of the goals in the Montréal (H-M) case, but it remains to be seen whether private owners will follow the public investment with new private investment in upgrading properties.

Packaging: how the individual elements and partners fit together

Because the number of partners and mechanisms involved is very limited, the level of complexity that is the hallmark of the U.S. cases does not characterize the packaging of "partnership deals" in Canada. Also, because there are very few mechanisms in place. The process of putting together a viable development is more black and white—it either works or it doesn't. Proponents do not have the opportunity to experiment with different combinations of mechanisms or partners since the range of options simply does not exist. Similarly, the absence of public funding programs negates the practice, prevalent among private partners in the United States of requiring prerequisite commitments of public financial assistance funding.

Some Canadian PPPs have approached a higher degree of complexity in seeking to take advantage of some tax-based mechanisms. In both Elizabeth/Chestnut, and a handful of other joint ventures that were tried in the late 1980s, partnerships were structured to take advantage of tax benefits that are available to private developers. These primarily involve the use, by the private developer, of depreciation (paper losses through capital cost allowances) to reduce taxable income. Tax changes in the late 1980s lowered the depreciation rate of real estate and also placed limits on soft cost deductibility. This provision is not available to passive investors, (i.e., individuals not directly in the business of real estate) limiting the potential to develop tax shelters.

While still in place, the attractiveness of these features relative to the complex tax and legal manoeuvring necessary to capture these benefits has tended to limit their use. There is little evidence of any attempts to pursue such approaches since the few joint-venture initiatives undertaken in the late 1980s (Van Dyk 1991; Lampert and Pomeroy 1997).

As alluded to above, there is also little evidence of the multi-financing layers and partners prevalent in the United States. All cases here used only one, or at most two, financing sources (Renterprise, the FIM second mortgage and the City of Kamloops deferred land lease payment). Where it can be accessed, CMHC insurance provides a vehicle to secure all financing from a single lender. There is no advantage or incentive to seek multiple loans.

Impact on the provision of affordable housing

Again, in contrast to the United States, because Canadian PPPs do not involve public funding programs, there are no mandated affordability targets. Thus, no data are available on the level of affordability achieved in these seven PPPs. However, all have been pursued by proponents interested in addressing affordable housing need, and their focus is on trying to make the units as affordable as possible. Affordability has been pursued primarily by seeking to minimize costs, either through concessionary arrangements on municipal land (Toronto and Kamloops), using existing "free land" (Kennebec) or targeting private stock which is affordable but under-maintained (Montréal and Winnipeg).

Without any financial assistance (except Montréal H-M), the affordability outcomes in the Canadian PPPs are similar to the two unsubsidized cases in the United States. (Fairfax ADU and CFH). They seem to serve households on the margin, perhaps with incomes approaching, but not significantly below core need threshold levels (and ranging from 80 to 120 per cent of median area income, although this U.S. measure is not used in Canada).

As noted at the commencement of this section, PPPs are a newer and less-developed feature of the affordable housing system in Canada. While this brief overview reveals the limited scope of PPPs to date, it also serves to highlight those areas where action could be taken to enhance the current system to better facilitate the potential for partnerships with some capacity to serve lower income households in need. These lessons are the subject of Part 4 of this report.

Part 4: Analysis of the U.S. Experience –Lessons for Canada

Assessment of the U.S. PPP experience

The detailed review of mechanisms and measures and the illustrative case studies provide useful insights into the relative importance of the various measures now in place in the United States.

In assessing the overall impact of PPPs, it bears noting that, in and of themselves, PPPs do not necessarily create affordable housing. The outcome in terms of affordable housing is a function of the measures available to, and incorporated in, each PPP endeavour.

In almost all U.S. PPP cases, public subsidy programs are a key factor behind the affordable housing outcome—either directly or indirectly through tax code provisions. The degree to which the product is affordable is similarly impacted by the amount of public funding underlying the partnership.

A key issue with U.S. PPPs relates to their efficacy in terms of addressing very low-income housing need. Certainly, the cases included here as well as most analysis in the literature points to this shortcoming. Again, this is not as much a criticism of PPPs as it is an indictment of the failure of public programs to provide the deep subsidy assistance necessary to penetrate to low-income levels (Stegman 1991).

In 1990, the U.S. General Accounting Office (GAO) observed that "PPPs have become important development entities, *not because they are inherently efficient or sensitive to client needs, but because they are vehicles for limiting federal expenditures and levering federal funds.*" (U.S. GAO 1990, emphasis added).

The preceding observations notwithstanding, a brief review of the literature generates a relatively positive view of PPPs in terms of creating affordable housing. The principal advantages identified include:

- PPPs have proven themselves to be innovative, versatile and flexible vehicles. In addition, this flexibility can be much better matched to local need than previous programs conceived at a national level (Rouse and Harvey 1989).
- For private developers, PPPs offer access to public resources and subsidies for which they would otherwise not be eligible, and can often provide media visibility and marketing advantages (Bates and Strickland 1991; Randall and Hoffman 1993).
- Public and quasi-public agencies can tap into private expertise, efficiency and market discipline. Local government is motivated by and benefits from PPPs that revitalize neighbourhoods, potentially reducing expenditures on policing and other remedial health and social services and enhancing the tax base (Bates and Strickland 1991).
- For lenders, PPPs have provided a convenient outlet enabling them to respond to the requirements of the *Community Reinvestment Act* (Marshall 1994). By working in collaboration with other lenders (through consortia), the public sector and not-for-profit community agencies, lenders have created new business opportunities (loans that alone they would not have considered), generated positive public relations, and contributed to social and physical improvements.
- It has also been suggested that multi-family projects developed under the auspices of PPPs may represent more secure loans than those on privately developed low-income housing under former HUD and FHA programs. Lenders involved in PPP affordable housing projects report strong loan performance, with rare defaults—in stark contrast to the overall multi-family default rate (Dipasquale and Cummings 1992).

- The potential to reduce risk through the participation of local government, well-established community organizations, and either local or national intermediaries, adds a perception of enhanced credit, even though this may have no legal grounding or recourse. Simply the fact that local government has a political interest in a project succeeding adds security for private developers and lenders (Knight 1996; Nenno 1996).
- In addition to diluting financial risk, PPPs serve an important function in reducing political risk. Low-income housing has a long history of failure, exemplified by public housing on the one hand, and corruption and default in FHA-insured market portfolios on the other—both heightening distrust of government. Low-income housing can also be an expensive undertaking, making failures even more embarrassing (U.S. GAO 1995). PPPs provide an opportunity for politicians to insulate themselves from this risk, by sharing it with others.

Because of the wide range of configurations possible under the auspices of PPPs, there has been very limited success in subjecting this approach to any formal assessment. Claims of their success have largely been based on anecdotal evidence (U.S. GAO 1990). The GAO sought to develop an evaluative framework for PPPs involved in housing and community development; however, to date, they have not published an evaluation.

Whether PPPs represent an efficient approach to addressing affordable housing need remains unanswered. Indeed, it would be very difficult to generalize, given the diversity of approaches that the term PPP encompasses, for example, the range covered by the case studies here. It has, however, been observed that PPPs represent a complex and often messy arrangement (Suchman et al. 1990). Others have gone as far as to argue that there is a high level of inefficiency that is generally unaccounted for, for example, the transaction costs of packaging five or more separate financing sources (Stegman 1991).

Assessment of individual mechanisms

Given these observations, it may be more useful to assess the relative efficacy of the individual measures used in any particular PPP. In Part 1, the main mechanisms were identified under two categories: prerequisite building blocks and supportive and facilitative mechanisms. These categories were developed to reflect the fact that at least one, and more often a combination, of these elements is necessary to stimulate any significant affordable housing activity. The key question is whether, acting independently, any of these could generate an affordable housing outcome.

A third category of mechanisms is also identified in Part 1—innovations and refinements. These are assessed as features that have enhanced and expanded the potential to establish partnerships and to procure affordable housing. These are seen more as icing on the cake. They do not represent critical ingredients, but do help to extend the impact of PPPs, largely by stretching the prerequisite and supportive resources even further.

As revealed in the two examples in Fairfax (ADU and CFH, Thornewilde), local regulatory measures have been able to generate affordable housing (in the relatively generous definition of affordable housing used in the United States), without any subsidy. Accordingly, regulatory measures might be elevated from the third category (innovations and refinements) to be included in this list of prerequisite and facilitative elements.

Figure 4.1 presents a theoretical assessment of the measures in the top two categories, (prerequisite building blocks and supportive and facilitative mechanisms). For each, its primary contribution to the production of affordable housing is identified. Then, its potential to achieve an affordable housing outcome in the absence of any of the other mechanisms is assessed.

Figure 4.1:
Potential for individual mechanisms to produce affordable housing independent of other measures and mechanisms

1. Measures Involving No Government Expenditure		
	Primary Contribution	**Theoretical Independent Outcome**
Community Reinvestment Act	Imposes strong incentive and moral suasion on lenders. Stimulates lending to marginal borrowers or areas.	Without loan consortia and other subordinated loans, unlikely to produce affordable housing.
GSE Special Goals (Fannie Mae, Freddie Mac)	Requires GSEs to purchase low-income loans.	Contingent on the origination of low-income loans for purchase; without CRA, unlikely that these would be available for distressed areas. There would be a potential impact on enhancing financing for low-moderate income homebuyers in other areas.
FHLB - Affordable Home Program	A below-market loan (and grant) pool available to FHLB members participating in local low-income rehabilitation and development.	Typically used to reduce the overall blended mortgage rate as one component of financing. Could technically fund entire mortgage but it was designed as a complement to other loans, and would not be applied in isolation to fund full loan.
Intermediaries (incl. national and local - e.g., LISC, Enterprise, LIHF and various metropolitan partnerships)	Act as a brokers for equity investment, raise funds through foundation and corporate donations and provide technical advice, education, start-up assistance to local partnerships and community organizations.	Could still have a strong role in building local expertise, but ability of CDCs to produce affordable housing would be limited without access to either LIHTC equity, or expenditure programs like HOME/CDBG or trust funds.
Loan consortia	Associations of lenders that pool funds and risks to provide capital to borrowers they would traditionally have considered higher risk.	Although not exclusively a product of the CRA, this is a major stimulus for loan consortia. Without other subordinated debt and public funding, extremely unlikely that loan consortia could or would independently fund affordable housing.
2. Expenditure-Related Mechanisms		
CDBG/HOME	Formula-based block grants that provide capital pools to localities to develop and implement their own programs.	Can produce affordable housing without other inputs. Effective to create soft second mortgages on affordable homeowner acquisition initiatives.
Tax-exempt mortgage bonds	Generates below-market interest rate financing through state agencies.	Can be used as first or second mortgage to finance development. Limited potential to achieve a viable rent level without some additional form of subsidy.
LIHTC	Tax credits sold to investors to generate equity investment.	Generates significant level of equity. Existing formula to determine maximum project level allocation still leaves an affordability gap so unlikely to produce affordable housing without any other assistance.
Equity funds	Non-profit funds specifically created as conduits for LIHTC equity, but in addition, they provide an array of organizational and financial advice and technical services to community organizations seeking to develop affordable housing and undertake other community development initiatives.	Without the LIHTC, the equity funds would loose their sole raison d'être. Some might continue to attract investment capital through contributions and donations (e.g., Low Income Housing Fund),[22] but scope would be significantly reduced.
Housing trust funds	Created through annual income from dedicated sources, such as special levies on real estate document registration, development fees, etc. Diverts funds that would otherwise flow to general government revenue specifically to affordable housing.	Trusts have increased in their level of capitalization and could conceivably finance a project at affordable rent levels, but this would narrow scope of fund to just a few projects and tie up working capital.

The mechanisms are grouped into those that involve government expenditures and those that do not.

Figure 4.1 reveals that, *in theory*, it is conceivable that some mechanisms might be able to achieve an affordable housing outcome independent of other mechanisms. However, in practice, it is unlikely that many would, in fact, be effective (or would even be pursued) without the support of some combination of the other mechanisms, especially the extensive subsidies available through the various grants and tax credits.

There is an important symbiotic relationship between many of the mechanisms. For example, to what extent would loan consortia have evolved without the imposition of the CRA requirements? Would equity funds have been created without a financial product to sell? Would any of these been viable without the significant federal subsidies involved in various programs?

The point here is that, over a period of more than a decade, a set of mutually reinforcing measures has gradually been created and built upon. Each measure was created or has been refined within the context that existed. They were not designed to function independently. Accordingly, it is not surprising that few can standalone, or that no attempt would likely be made to utilize them, outside of a PPP arrangement.

Key features of the U.S. affordable housing system in the 1990s

As noted above, there has been a concerted effort on the part of the federal government to promote PPPs as a way to limit federal direct expenditures and lever federal funds (U.S. GAO 1990).

While there have been very significant reductions in new federal direct spending on pure housing programs, with curtailment of new commitments on housing production programs, there continues to be a significant appropriation of funding (through more broadly focussed block grants) that provides a critical stimulus to PPPs.

The 1998 appropriations for CDBG and HOME are proposed at $4.6 billion and $1.3 billion, respectively. The annual new authorization for the LIHTC is roughly $315 million. Since this annual level of credits is taken over a 10-year period, the sum of each year's allocation involves a total tax expenditure of potentially $3.15 billion (nominal dollars over 10 years). HUD reports that the total LIHTC expenditure in 1997 was $2.8 billion (HUD 1997).[23]

Together these three major federal expenditure or funding programs (LIHTC, HOME and CDBG) generate a total new annual federal expenditure of almost $9 billion (1998), the majority of which supports initiatives generally undertaken in some form of PPP.

An obvious conclusion from this analysis is that the success of PPPs in the United States is primarily a consequence of very significant levels of public expenditure, working in concert with policies and practices that encourage and facilitate involvement of multiple partners. This includes the leverage of private financing.

In addition to the funding available from the federal government, HOME allocations require matching local cash contributions ($1 local: $4 federal). Because both HOME and CDBG are block grants and are used in various permutations, including repayable loans, local capital pools created from these federal allocations effectively become revolving loan pools over the long term.[24] These are augmented by an array of state, regional and local housing trust funds which, in 1996, received over $300 million from dedicated sources plus additional state appropriations of another $42 million (Brooks 1997).

This flow of funding to the state and local level has been instrumental in stimulating local innovation including city housing partnerships, like those in Charlotte, New York, Jackson and numerous other cities.

Localities have also become adept in stretching these public funds to the maximum extent possible by combining them with private financing. In part, this is facilitated by the very nature of affordable housing issues. In some areas, especially those where the existing stock is relatively affordable (albeit often deteriorated), the problem is not one of high production costs, it is simply a matter of access to the necessary financing to enable low- and modest-income households to purchase and rehabilitate the existing stock.

Increasing access to private capital is a common goal in many communities, and local funds derived from, or augmented, by federal block grants play a critical role in levering private loans. Many U.S. cities benefit greatly by strategically using their public funds to stimulate private financing for revitalization and rehabilitation efforts, preserving and upgrading stock that is inherently affordable.

In other communities, public funds have proven effective in providing low-cost financing for new construction by effectively reducing the debt-carrying cost of the project.

The very significant federal funding provided indirectly through the LIHTC is also a key part of the equation. The LIHTC equity provides essentially no-cost capital to the project developer, often covering as much as half the project capital cost. This enables projects to be viable, at market rents affordable to low-moderate income levels (but not typically to the very lowest income levels).

Beyond its significant impact on the economics of new project development, the LIHTC has had a large influence on the emergence of an institutional infrastructure of equity funds and intermediary organizations. Arguably, most of these would not have been established in the absence of the LIHTC, or some similar financial product. This large network of intermediaries and equity funds is now a self-perpetuating machine mounting a strong and vociferous lobby at the first hint of revisions to, or possible elimination of, the tax credit.

Most noticeable in comparison to Canada, the U.S. system is characterized by a very active level of participation on the part of the corporate, and especially the financial, sectors. Loan consortia exist in almost every major city, and many lenders and finance companies are active participants in developing new financial products aimed at the affordable housing niche.

Participation of private financial corporations has been promoted both by a carrot and a stick. In the United States, the stick is in the form of legislation that, in the first instance, encourages lenders to invest or provide loans in low-income areas, and second, imposes legislated targets to coerce the quasi-public GSEs (Fannie Mae and Freddie Mac) to purchase these loans. The targets are established as a percentage of total loans purchased by the secondary market institutions. This in turn has stimulated the GSEs to create specialized insurance products and loan underwriting criteria that lenders must meet in originating qualifying loans for these purchases.

Meanwhile, the carrot is provided by relatively sound and, in some cases, quite attractive investment opportunities. This is mainly a function of indirect public funding—the LIHTC, plus soft second public mortgages which create low-risk opportunities for private first mortgage lenders.

Canada has none of this type of "coercive" legislation, or the attractive (tax-based) investment vehicle represented by the LIHTC.

Just as the LIHTC has spun off an institutional infrastructure, now, after a decade of participating in affordable housing initiatives, the private financial sector has developed a greater understanding and awareness of affordable housing lending. Legislation and enforcement caused their initial involvement but, over time, an initial grudging attitude has been displaced as the economics of participation have built a sound business case, so much so that lenders have created their own national association—National Association of Affordable Housing Lenders (NAAHL).[25]

Further advancing the potential for PPPs, corporate leaders and lenders serve on the boards of city housing partnerships and, through their networks, attract additional private investment to affordable housing.

Overall, PPPs in the United States have achieved two critical objectives. First, they have stretched limited public funds further by integrating public money with private capital (effectively lowering the risk on this private capital and attracting more of it). Second, PPPs have helped to develop a very broad constituency of support for affordable housing. In the United States, affordable housing is not the sole preserve of a narrow constituency of advocates as, arguably, it is in Canada.

Nowhere is this more evident than in the enactment and subsequent renewal of the LIHTC. It was known from the outset, and has been widely documented since (Stegman 1991; Case 1991; Wallace 1995), that the LIHTC conveyed a very significant tax benefit to investors (and thus a high subsidy cost to government). However, it is because the LIHTC provides such a lucrative investment that it is widely supported by the finance and real estate industries.

The LIHTC represents an important trade-off between economic efficiency (i.e., a direct subsidy to affordable housing) and political sustainability. History in both the United States and Canada has shown that narrowly focussed affordable housing programs are highly vulnerable to elimination, largely because they are very expensive (because housing is inherently expensive) and because they do not have a broad-based powerful constituency of support. By contrast, in the United States, the LIHTC has proven to be politically resilient, not because proponents support affordable housing per se, but because the LIHTC provides a direct significant benefit to a broad range of powerful corporate investors.

In sum, the system that prevails in the United States is not an explicit purposeful creation of a government agency with a policy mandate to facilitate PPPs. Rather, it is the natural and dynamic outgrowth of a fragmented set of elements (nurtured by significant direct and indirect government financial assistance and some public policy support) that has evolved together over some two decades. It is not controlled or directed by any single agency of government. Because it is effectively a self-created and now largely self-sustaining system and is reaching a stage of maturity, it is also relatively resilient—a characteristic that has eluded most, if not all, large-scale, costly government programs in the past.

Comparison of Canadian versus U.S. experience

The juxtaposition of the two sets of illustrative case studies from the United States and Canada exposes some key differences between the state of the PPP experience in the two countries.

In comparison to the United States, the Canadian PPP environment is still at an early stage of its development, and there are fundamental differences in the financial environment and context. From the brief review of the Canadian context and the Canadian cases, it appears that the following features characterize the Canadian situation.

- Public funding or financing is almost non-existent (except for mortgage insurance, which is provided with standard premiums).
- PPPs to date have involved few partners.
- Municipalities and non-profit organizations are key players (but unlike their U.S. counterparts are trying to participate without the benefit of funding transfers from senior government).
- An existing infrastructure of experienced non-profit development groups remains but, in the absence of development-fee revenues, is eroding.

- The corporate and lending community is virtually absent, beyond providing standard conventional and insured financing.
- Few formalized partnering mechanisms (such as city-wide partnerships) exist.
- No financial intermediaries have emerged, beyond CMHC, which provides some technical advice but does not replicate the wide range of functions typically performed by U.S. intermediaries.
- There has been very limited use of tax measures (primarily a few attempts to use capital cost allowance and soft cost deductibility in joint venture arrangements).
- Although some recent efforts have involved acquisition and rehabilitation, the main preoccupation is on developing new projects. To a degree, this preoccupation with building new is a legacy of the non-profit program era, which (outside of Québec)[26] tended to emphasize new development over rehabilitation.

There is a major difference between Canada and the United States in the structure of the finance systems. Unlike Canada's system of large national banks, legislation has limited the development of large commercial banks in the United States. A local base of deposit taking and mortgage lending in the United States provided little scope to manage risk through diversification, thus creating the impetus for the development of an entire industry dedicated to risk diversification—the secondary mortgage market. Without the imperative that existed in the United States, in Canada, the necessity for (and hence growth and magnitude of) mortgage-backed securities have come nowhere near to the experience in the United States, even allowing for the difference in population.

Because of this context, which is in stark contrast to Canada, the U.S. housing finance system is both central to, and creates opportunities for, innovative approaches in responding to affordability issues. Related to the nature of the U.S. housing finance system, the preoccupation of PPPs in the United States is on reducing the amount and cost of debt financing (as distinct from reducing hard development costs or subsidizing rents).

Racial issues, often combined with greater levels of urban distress, fuelled much of the legislative response to discriminatory lending practices (notably the CRA, as well as other related legislation).

Similarly, a number of the PPP mechanisms in the United States, especially the GSE secondary-market affordable housing goals, and the associated underwriting products and initiatives to encourage affordable lending practices, derive from the nature of the U.S. housing finance system.

These factors in the United States have stimulated a need for financial institutions to respond (often in the face of legislative pressure). Although the need to fill the affordable financing gap is as critical to establishing project viability in Canada, there have been fewer opportunities for financial product innovation in Canada. Some progressive and courageous efforts have been pursued by the credit union sector but, to date, innovation and success is limited, largely due to differences in the housing finance systems and infrastructure in the two countries.

This distinction is a consequence of the sticks and carrots available in the United States. The LIHTC provides equity, which reduces the amount of financing required. The CRA induces a much greater level of private financial participation, and the affordable housing proponents build from this important financing feature. U.S. proponents also have greater access to public funds, which can be used to stimulate private investment and reduce the blended rate of combined public and private financing.

In short, not all features of the U.S. system are either desirable or appropriate and, in many cases, the circumstances in Canada just do not lend themselves to the wholesale adoption of the U.S. model. In particular, given the extensive use of tax-based mechanisms in the United States, the efficacy of these approaches in Canada deserves some attention.

Tax expenditures: are they appropriate in Canada?

Use of tax expenditure measures as a means to encourage and facilitate affordable housing production is a controversial issue, even in the United States. On the one hand, it can be argued, based on the substantial empirical evidence available from the United States (Stegman 1991; Case 1991), that the LIHTC is an inefficient expenditure, compared with the alternative of directly funding affordable housing. On the other hand, there is the obvious tradeoff in terms of the political sustainability of such broadly supported tax measures as the LIHTC. Even an inefficient program may be viewed favourably when compared with a situation where there is limited public funding for low-income housing assistance.

Given the current treatment of real estate in the Canadian tax code and the extent to which the LIHTC was an opportunistic 11th hour clutch in the midst of a relatively sweeping tax reform, the likelihood of such a circumstance presenting itself in Canada is remote. Such initiatives are also against the long-term drift of Canadian government fiscal policy away from tax-based incentives in real estate (e.g., the MURB provision, reductions in capital cost allowance, treatment of soft costs and other measures).

Tax-exempt mortgage revenue bonds are another one of the mechanisms used in the United States to raise low-cost mortgage capital. Because bond interest income is tax free (from both federal and state taxes), bonds can be priced at a lower yield). Most housing policy economists believe that this mechanism may be a more efficient approach than the tax credit. However, it only reduces the cost of capital, while the tax credit generates equity investment with no debt service requirement.

In Canada, all levels of government already use bond financing (local government primarily for capital works), but yields are not tax exempt. The transaction costs and expertise necessary for underwriting such issues are therefore well established.

In the United States, tax expenditures are used to support specific social and economic public policy goals. The Canadian government too has used this approach, both to respond to child poverty (the child tax credit) and employment generation (through labour sponsored investment fund tax credits).

In the United States, adapting or creating financial vehicles appears to have been a necessary condition to raise awareness and increase the participation of the corporate and financial sectors in affordable housing. This has then generated the corollary benefits—increased corporate donations specifically for housing, greater awareness and interest in the boardrooms of the nation and, potentially, a broader constituency of support for affordable housing. When combined with local initiatives and labour participation, this constituency of support would be even broader.

Despite the advantage of creating a supporting constituency, there are obvious inefficiencies involved in providing financing through the tax system, whether through an LIHTC, tax-exempt bond or any other tax-based mechanism. The leakage in scarce government revenues to finance packaging, administration and the accounting, legal and syndication fees associated with tax-shelter mechanisms reduces the effective assistance to the target group. If the goal of affordable housing production is worthy of support, most economists argue that it should not need to be finessed through an opaque mechanism that masks its real cost and erodes the benefit to the target group.

Theoretical and practical adaptation of the U.S. experience – lessons for Canada

Given the significantly different context between Canada and the United States, it is difficult to identify areas where the U.S. experience can be adapted for use in Canada. Clearly, the U.S. PPP system has been built on a base of a very significant level of public financial support which does not exist in Canada. As noted above, more than $9 billion in new funding is expended annually on various federal programs, the majority of which supports PPPs.

While the focus of this study is to examine elements of the U.S. system which did not involve government expenditure programs, it would be simplistic and misleading to discuss the U.S. PPP system without emphasizing the important (probably critical) role played by the enormous public subsidies available in the United States. The various (non-subsidized) elements of the U.S. system are unlikely to be viable without this substantial subsidy support.

To determine which of the U.S. mechanisms (or the theoretical adaptations thereof) are either desirable or necessary in Canada, it is useful to return to the conceptual framework presented in Part 1 of this report.

In the conceptual framework, the mechanisms and measures were identified in general terms. However, as the case studies illustrate, there are essentially four variants in the procurement approaches used to provide affordable housing. Affordable housing may be provided either for rent or for sale for ownership. Similarly, it may encompass either new construction, or acquisition and rehabilitation.

Each procurement technique uses a different, though not unique, combination of the mechanisms and measures discussed. Using the original conceptual framework as a basis, the four approaches are portrayed conceptually in Figure 4.2.

The height of the column reflects the relative total per unit cost of each approach. The horizontal lines indicate the level at which the product might be affordable, relative to family area median income. The financing source (labelled variably as local grant, low-interest loan or deferred loan) generally refers to the variety of funding sources available at the local level—local revenues, tax increment financing, housing trust funds and, most significantly, the local allocation of federal block funding (CDBG and HOME). Equity may be represented by land equity or, in the case of both rehabilitation and new construction, tax-credit equity investment.

These public funding sources are evident (and very significant) under all four approaches. The U.S. cases have revealed that few, if any, initiatives can achieve an affordable level without the substantial public financial support that is a component of most U.S. PPPs. Without this financial assistance, an affordable housing product is seldom possible and certainly would not penetrate much below moderate income (80 to 120 per cent of area median income).

Notably, efforts focussed on the existing stock have a greater opportunity to achieve affordable levels, or at least require less subsidy to do so. As suggested by the height of the columns in Figure 4.2, any initiatives involving new development, whether rental or for sale, must overcome a high cost threshold. As shown in the examples, these require much larger amounts of public subsidy—either direct or indirect through the LIHTC. The four approaches portrayed in this adapted conceptual framework provide a useful tool to filter the abstract and theoretical Canadian equivalencies for the U.S. mechanisms presented earlier in Figure 4.1.

In assessing potential adaptations of the U.S. experience to Canada, it is useful to determine what is missing from the current Canadian context. Once the existing gaps or deficiencies in the Canadian system are identified, it is possible to review the U.S. experience for possible ideas that could be adapted to meet the needs of a Canadian affordable housing system. This assessment is discussed below for each of the four combinations of new and existing, rental and ownership. While a number of possible approaches are identified and discussed, based on the U.S. practice, these are not necessarily recommended.

Existing rental

In the United States, this typically involves acquisition of relatively lower-priced properties often as part of a broader community revitalization strategy. Municipalities usually have a direct involvement and participate in providing loans and grants.

This option is feasible in Canada (and is being initiated in Montréal as shown in both case studies), although there are some constraints to overcome. Non-profit groups could be potential purchasers and would ensure units remain affordable over the long term. They have capacity to manage the acquisition and ongoing operation but lack the means to make an acquisition.

Figure 4.2:
Affordable procurement—conceptual financing approaches in U.S. PPP models

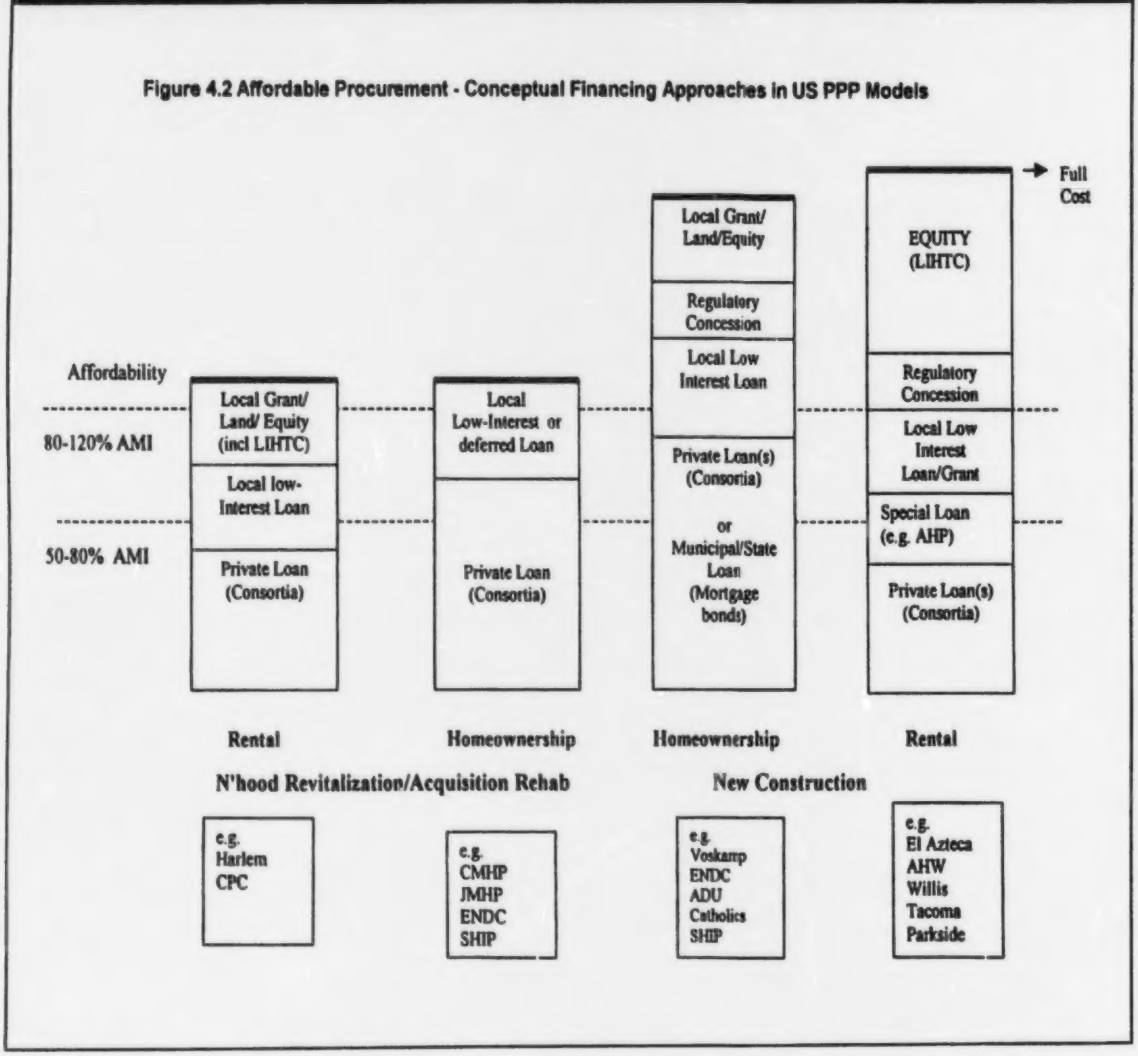


Figure 4.2 Affordable Procurement - Conceptual Financing Approaches in US PPP Models
Full Cost
Affordability
80-120% AMI
50-80% AMI
Local Grant/ Land/ Equity (incl LIHTC)
Local low-Interest Loan
Private Loan (Consortia)
Local Low-Interest or deferred Loan
Private Loan (Consortia)
Local Grant/ Land/Equity
Regulatory Concession
Local Low Interest Loan
Private Loan(s) (Consortia)
or
Municipal/State Loan (Mortgage bonds)
EQUITY (LIHTC)
Regulatory Concession
Local Low Interest Loan/Grant
Special Loan (e.g. AHP)
Private Loan(s) (Consortia)
Rental
Homeownership
Homeownership
Rental
N'hood Revitalization/Acquisition Rehab
New Construction
e.g. Harlem CPC
e.g. CMHP JMHP ENDC SHIP
e.g. Voskamp ENDC ADU Catholics SHIP
e.g. El Azteca AHW Willis Tacoma Parkside

With properties available at prices from $20,000 to $40,000 per unit in many centres, small grants or deferred loans of perhaps $5,000 to $10,000 per unit would make these acquisitions viable. This level of grant equity would also help to reduce lending risk and may encourage financing for such acquisitions. Lenders (and CMHC underwriters) are typically cautious on rental loans, especially those in poorer or distressed areas and, even in strong market areas, require substantial equity (often 30 to 40 per cent of cost).

Funds from the Residential Rehabilitation Assistance Program (RRAP) may be available to cover rehabilitation and increase equity for lending purposes. Other financing sources that could be developed include:

- municipal grants, premised on tax increment financing (i.e., the increased tax revenues that may result from a building in tax arrears or in a distressed condition);
- a local housing trust fund; and
- some sort of energy retrofit financing through utilities.

Based on securing some of these sources of financing (to reduce loan-to-value ratios), CMHC/CCPPPH could:

- work with mortgage insurers and lenders to develop specialized mortgage underwriting policies to encourage private lenders to provide financing;
- prepare technical guidelines to assist non-profit groups in carefully selecting properties requiring minimal upgrading (including property inspection guidelines);
- promote and possibly contribute to the development of local housing trust funds for acquisition financing; and
- promote project-related investments (i.e., below-market rate loans) from ethical investors, foundations, etc.

Existing homeownership

Numerous affordable homeownership initiatives are being pursued in the United States, often under the auspices of city-based PPPs. A similar approach has potential in many Canadian cities (and in fact is already being done in a number such as Regina, Winnipeg and Saskatoon).

As in the case of rental housing, existing ownership properties are often inherently affordable, even to modest-income buyers. In some cases, households do not have sufficient down payment, have a poor credit rating or lack permanent employment—floating between part-time and casual low-wage jobs—an increasingly common feature of the new economy. Mortgage payments, in many cases, would be less expensive than renting, and ownership could help stabilize young families.

The U.S. mechanisms used in such cases include specialized underwriting with low-down-payment mortgages, combined with a strong emphasis on credit counselling, homeownership education, and post-purchase monitoring and counselling.[27] These services are variably provided by not-for-profit community agencies, lenders themselves or counselling agencies, sponsored by HUD, state housing agencies and the GSEs. Often, because these efforts are concentrated in transitional neighbourhoods, with the municipality taking an active role, they are integrated with renewal and community economic development. By working to stabilize communities and enhance opportunities for local commercial and retail business, they attract business-sector participation.

Given the availability of relatively affordable ownership options in Canada, the U.S. practice of education and counselling has similar merits here too. Other potential measures might include:

- property tax deferral for initial years (municipalities eventually benefit from tax revenues that, in the absence of the development, would not have been generated—approach already being used in Montréal);

- rehabilitation grants (RRAP is already available);
- energy retrofit grants and financing from utilities; and
- an expanded process of homebuyer education and counselling that also implies a need for education materials and guidebooks—a technical function that CMHC has traditionally provided.

A novel partnership used to promote awareness of affordable homeownership opportunities and related local partnership initiatives is the Fannie Mae Home Team Partnership with the National Basketball Association. With NBA teams in Toronto and Vancouver, there may be an opportunity to piggyback on this U.S. marketing idea, or a Canadian equivalency might be a partnership with the National Hockey League (NHL).

Affordable new homeownership

The approaches that can be used to facilitate affordable homeownership in relation to new construction are very similar to those identified above for existing properties.

The critical difficulty with new construction is, however, that it typically involves a much greater total cost than utilizing existing homes. The Voskamp affordable townhouse case reveals the significantly higher level of public subsidy required to achieve affordable homeownership with new construction. Some cost reductions can be achieved through regulatory concessions and the use of bonuses (as in the Fairfax ADU cases) but these are marginal in comparison with the subsidy levels required.

When existing stock is readily available, it would appear ill advised to seriously pursue new construction. Limited available funding can be stretched much further in existing housing. There is also a related public relations issue. Providing new housing to low- and moderate-income households has less support among the tax-paying middle class, most of whom make do with an existing home.

Areas where major redevelopment or growth is taking place may be exceptions. If these involve public land, some level of affordability can be achieved through reducing the land cost and using soft second mortgages to maintain affordability and preclude windfall profits to initial owners.

New rental development

The experience in the United States reveals very clearly that new multi-family construction for affordable rental requires very substantial financial assistance to bridge the financing gap (between supportable debt and capital costs), although this is provided, in part, through the indirect subsidy of a tax expenditure program.

While the U.S. approach of using tax credits generates significant equity investment, even this is not sufficient to produce viable affordable rental production. Additional public financing in the form of concessionary loans or grants is necessary. An average U.S. rental project providing housing to families at 60 per cent of area median income will generally generate sufficient net operating income to support debt service on approximately one-third of the total cost. In the absence of ongoing rent subsidies, the remaining affordability gap, equal to 69 per cent of project costs requires some combination of equity, grants and concessionary financing totalling the amount of this gap. With an average per unit cost of $85,000 the gap is some $58,000.

In a recent Canadian study completed for Metro Toronto, an analysis of mechanisms that would facilitate rental construction was prepared (Lampert and Pomeroy 1997). This study similarly concluded that without some form of public contributions either in the form of reduced or deferred land costs, density bonuses, access to cheap capital or outright grants, it is not economically viable to build rental housing, even at market rents. Clearly, it is even less viable to build to affordable rents. Again, the key recommendation here is to look first to opportunities in the existing stock, where the affordability gap may be narrower.

Creating a public private partnership infrastructure

In terms of increasing the production and preservation of affordable housing in Canada, the principal lesson from the United States is that well-resourced local entities (such as local housing partnerships or housing trust funds) are likely to be the most productive and effective vehicles on which to build new mechanisms, whether operating as PPPs or otherwise. The U.S. experience also provides some ideas of how to establish this affordable housing PPP infrastructure.

Local housing partnerships

A strong leadership role at the local level is an imperative prerequisite. Many of the mechanisms that do seem to have some potential could best be undertaken at the local level, but with some support from senior levels of government. The significant role of block grant transfers in the United States has been highlighted. This has been a critical factor in facilitating and levering municipal initiative.

In light of the constraints and bureaucracy inherent in a public agency, it may be most effective to establish autonomous agencies or metropolitan housing partnerships (similar to those in the Charlotte, Jackson and Baltimore case studies and prolific across the United States). Ideally, such partnerships should be metropolitan or regional to avoid opting out among cities (which leads to inequities in the distribution of affordable housing and the burden of subsidy costs).

Inviting civic and corporate leaders as key members of any local partnership also appears to be important, generating high profile and significant influence. Equally important, however, is that the local entity needs to be well resourced.

Local housing trust funds

Local housing partnerships could be established in conjunction with the creation of local housing trusts as conduits for capital. The Florida SHIP is an excellent example of this approach to stimulate local initiative.

Capitalization of these trust funds could be pursued from a variety of sources. In the United States, this includes the imposition of special levies and taxes (e.g., on land title registrations), revenues from tax foreclosure sales and, in strong growth areas, from development charges on commercial development (linkage fees). Contributions could also be sought from such sources as foundations, the United Way campaign, real estate brokers, the interest from real estate brokerage trust accounts (now occurring in Manitoba), mortgage lenders and the corporate sector (using the networks and influence of influential directors).

In the United States, a number of states augment dedicated trust fund revenues with periodic or annual appropriations. Currently in Canada, the federal government is seeking to transfer the administration of existing social housing portfolios to the provinces, with a proviso that provinces can retain any savings achieved in their ongoing administration but that these savings be used for housing. Encouraging the provinces to establish local partnership trust funds (and allocating savings to these) could achieve the dual objectives of allowing provinces to retain savings and ensuring that funds are allocated to housing. Such funding could provide an important spur to local initiatives (as they do for example in the Florida SHIP).

Some recent efforts to establish housing trust funds in a number of Canadian centres (e.g., Edmonton, Winnipeg, Montréal and Fredericton) are a promising sign. These efforts could be enhanced and expanded by highlighting potential sources of dedicated funds.

Increasing private-sector participation

The substantial participation of the financial services sector has been noted as a key feature of the U.S. system. Figure 4.2 identifies private lenders, often acting within loan consortia, as a predominant feature in all four approaches. To this point, little has been said about the potential role of this sector in Canada. Although much is made of lender involvement in the U.S. context, more often than not, this simply involves financing at close to market rates. This objective is arguably already achievable in Canada as a result of the housing finance system established in Canada—largely due to government policy and CMHC's role.

The basis for more proactively encouraging the involvement of the financial lending and home mortgage sector in Canada is less compelling than in the United States. The problem of discrimination and selective lending practices (the impetus for both the CRA and GSE goals) is less evident, though concerns are not entirely absent in Canada. The (Canadian) Community Reinvestment Coalition (CRC) (http://www.cancrc.org), for example, has questioned whether banks serve all customers fairly and equitably. They have also argued that there is a need to stimulate increased levels of investment in certain underprivileged neighbourhoods. The CRC has made representations to this effect to the committee reviewing the *Bank Act*.

Although discriminatory practices are less of a problem in Canada than in the United States, the measures taken in the United States provide a model that could be used to at least encourage more inclusive and flexible lending practices. In particular, there may be some basis for public disclosure of community lending and investment activities, relative to deposits.

Again, given the important role that government policy has played in creating an effective and efficient housing finance system (from which the banks benefit and generate part of their increasingly noticeable profits), there may be some public and moral pressure for the banks to entertain some initiatives voluntarily. This might encompass opportunities for partnerships with the banks or the Canadian Bankers Association specifically to fund low-interest mortgages for rental acquisition or, where appropriate, new development (e.g., a voluntary version of the FHLB AHP).

The U.S. experience suggests some possible ways to encourage the development of special low-income lending initiatives through mortgage lenders. In a local adaptation of the CRA performance criteria, the City of Pittsburgh allocates its bank deposits (some $300 million) to banks achieving the best record of community lending. Canadian cities could consider this practice. Another option is to exempt profits on affordable housing loans from taxes, or require some target level of loans to be made at cost (a variant on the GSE special goals).

As another variant on the GSE special goals, financial regulators in Canada could establish targets and goals for approved lenders to originate affordable housing loans. Eligibility for approved lender status could be a stick in this regard.

Lenders could also be asked to fund the production of (and possible staffing for) counselling and homebuyer education materials. The U.S. experience has demonstrated that there is a viable niche market for new and profitable lending products targeted to these traditionally marginal borrowers. Possibly a presentation to the Canadian Bankers Association by a U.S. organization like the National Association of Affordable Housing Lenders would be an effective way to stimulate such approaches.

Summary of opportunities

In reviewing the U.S. experience, it is evident that the production and preservation of affordable housing is not a consequence of PPPs in and of themselves. It is a function of the multiplicity of mechanisms and, particularly, the funding available in the United States. PPPs, however, have been an important element in increasing the investment of private funds in affordable housing ventures.

Many Canadian municipalities are actively searching for ways to address persistent housing needs in their communities. They are motivated and have some tools as a result of their regulatory and local taxing powers. However, their ability to have a significant impact on meeting affordable housing needs (and to replicate the extensive involvement of many U.S. counterparts) is limited by the lack of financial resources and mechanisms to augment their existing resources.

Specific locally designed programs can be created to provide both ownership and affordable rental opportunities—provided they have access to sufficient financial resources to have a meaningful role. While funds for these purposes are scarce, there are many ways that local initiatives could be funded. Consolidating resources in local housing trust funds can most effectively lever additional contributions.

Senior governments can play a very significant role in kick starting local PPPs by providing initial seed funding, possibly on a matching grant basis (as in the U.S. HOME program). Also, investments in local housing partnerships could be an effective use for savings generated through the more efficient administration of existing social housing portfolios.

The strategic use of public investment to mitigate risk, together with moral suasion, might also be applied to stimulate more active and meaningful participation of the corporate and mortgage-lending community, possibly including performance standards and public disclosure on community-lending activities of lenders.

In terms of the housing product, the experience of both the United States and Canada indicates that use of the existing housing stock has the greatest potential to promote affordable housing opportunity. New housing production is much more expensive than acquiring lower cost existing housing units. Therefore, scarce funding can be used more effectively with existing housing, whether the product is for rental or owner occupancy.

Specific recommendations for CMHC and the CCPPPH

This review has suggested a wide range of possible activities that could stimulate and support affordable housing initiatives. As Canada's housing agency, CMHC can help to promote the idea of local housing partnerships (LHPs) and assist in developing the PPP infrastructure. Specific activities could encompass:

- Actively promote the idea of LHPs and demonstrate leadership by building strategic partnerships to help implement and capitalize LHPs, for example, with provinces, the Canadian Bankers Association (CBA), the Canadian Real Estate Association (CREA) and the Federation of Canadian Municipalities (FCM). One initiative could be a challenge program to lever matching grants or loans.
- Initiate discussions with provinces and territories on using social housing savings or other sources of funding to capitalize local trust funds.
- Assist LHPs in identifying new funding sources and sharing experience on how they have secured dedicated funding sources (for example the Winnipeg case study and the role of the Manitoba Securities Commission).
- Define affordable housing lending criteria and explore opportunities to develop specialized mortgage underwriting policies to more actively encourage private lenders to develop innovative and lower-cost financing. Experiment through pilot initiatives in partnerships with private lenders.
- Explore opportunities to provide affordable homebuyer education and counselling and develop necessary materials.

- Encourage affordable lending initiatives in partnership with the CBA, Trust Association of Canada and Credit Union Central (possibly by linking with organizations such as the NAAHL in the United States).

More specific to CMHC's research and information transfer mandate:

- Refocus CCPPPH on activities that help to build a partnership infrastructure (developing expertise and skills in community groups), rather than individual projects (note that foundations tend to fund these types of capacity-building activities and accordingly could be a potential partner).
- Prepare technical guidelines to assist non-profit groups in carefully selecting properties requiring minimal upgrading (including property inspection guidelines).
- Prepare technical guidelines and model documentation to assist municipalities in preparing requests for proposals for affordable housing joint ventures (and ways to maximize use of municipal resources such as land and tax increment financing).
- Promote philanthropy and corporate giving in relation to affordable housing by developing a case to show how corporations benefit through supporting affordable housing.
- Research options to develop lower cost financing and funding to facilitate PPPs. Examples include sale/leaseback arrangements with the private sector to utilize the capital cost allowance, lower-cost financing options and innovative mortgage arrangements.
- Adopt PPP as the theme of the CMHC Annual Awards.

Some concluding observations

The emergence of the relatively active and expanding partnership-based affordable housing system in the United States is attributable to a number of influences, as discussed in Part 1. These relate to the evolution of federal housing policy, the broader housing finance system and tax system, the sociopolitical context, social values and citizen attitudes toward the role of the state, the nature of urban growth and decline, and the context in which community-based organizations developed in the United States.

The context in Canada is quite different—especially in terms of attitudes toward government, the role of the private sector and the ongoing constitutional dilemma—which specifically impacts housing. The curtailment of new subsidies for social housing production is a relatively recent change in Canada and one which occurred much more abruptly than in the United States.

Although cuts to housing production budgets were equally severe in the United States in the early 1980s, the ongoing provision of funding under the auspices of community development and revitalization softened this impact. Moreover, there remains a very significant level of funding (in excess of $9 billion annually) much of which supports the PPP system in the United States and provides the critical gap financing to achieve the production of affordable housing without apparent ongoing subsidies.

While the U.S. context is different, there are some valuable lessons and insights from the U.S. experience that might help to accelerate and expand efforts in Canada. There are some promising early PPP efforts in Canada, as illustrated in the cases described here.

The key is to facilitate efforts at the local level and provide a flexible framework of measures and mechanisms—sources of expertise, financing and subsidy—that promote local initiative and creativity to develop appropriate solutions to the housing need at hand. Based on the U.S.

experience, it would be helpful if these initiatives could be dovetailed with other non-housing initiatives (revitalization and human resource development).

It is clear, however, that the significant private-sector involvement in U.S. PPPs is mainly due to the fact that they are financially attractive investments. Because of the substantial public funding available in the United States, partnerships can be structured so they provide attractive returns to private-sector companies and lenders. Without a substantial financial product to package and market, financial intermediaries would have little to mediate. Providing technical advice alone would not sustain LISC, Enterprise or any of the state and city equity funds. Other incentives (e.g., public relations and media attention for participation in worthy projects) would likely have minimal success in levering investment without the attractive financial returns.

It is consequently difficult to escape the observation that "there is no free lunch." One way or another, providing assistance to those in need requires public funding and policy support. In the United States, PPPs are based on massive amounts of direct and indirect federal public funding—direct grants through a number of mechanisms such as CDBG and HOME, and indirect financing through LIHTC, tax-exempt bonds and other mechanisms. Without the funding that flows through to states and localities, it is debatable whether any of the partnerships described in this report would have been viable.

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Acronyms, Initialisms and Abbreviations

ACT	Affordability and Choice Today Program (CMHC)
ADU	Affordable dwelling unit
AHP	Affordable Housing Program (United States)
AHW	Affordable Homes West (Nebraska)
AMI	Area median income
BUILD	Baltimore United in Leadership Development
CATCH	Community Assisted Tenant Controlled Housing (New York)
CAUHM	Collectif en aménagement urbain Hochelaga-Maisonneuve (Montréal)
CCPPPH	Canadian Centre for Public-Private Partnerships in Housing
CDBG	Community Development Block Grant (United States)
CDC	Community development corporations
CDIF	Community Development Investment Fund (United States)
CHAS	Comprehensive Housing Affordability Strategy (United States)
CHRA	Canadian Housing and Renewal Association
CIP	Community Investment Program (Federal Home Loan Bank)
CMHC	Canada Mortgage and Housing Corporation
CMHP	Charlotte Mecklenburg Housing Partnership (North Carolina)
CPC	Community Preservation Corporation (United States)
CRA	*Community Reinvestment Act* (United States)
CRC	Community Reinvestment Coalition (Canada)
CREA	Canadian Real Estate Association
CTED	Community, Trade and Economic Development (State of Washington)
DCIC	Delaware Community Investment Corporation
DHA	Dover Housing Authority (Delaware)
DHC	Detroit Housing Commission
DSHA	Delaware State Housing Authority
EAEDPC	El Azteca Economic Development and Preservation Corporation (Texas)
EFN	Equity Fund of Nebraska
ENDC	Enterprise Nehemiah Development Corporation (United States)
ERTA	*Economic Recovery Tax Act* (United States)
ESIC	Enterprise Social Investment Corporation (United States)
Fannie Mae	First Federal National Mortgage Association (United States)
FCM	Federation of Canadian Municipalities
FCRHA	Fairfax County Redevelopment and Housing Authority (Virginia)
FHA	Federal Housing Administration (United States)
FHEFSS	*Federal Housing Enterprises Financial Safety and Soundness Act* (United States)
FHLB	Federal Home Loan Bank (United States)
FHLI	First Home Loan Insurance (CMHC)
FIM	Fonds d'investissement de Montréal
FIRREA	*Financial Institutions Reform, Recovery and Enforcement Act* (United States)
FmHA	Farmers Home Administration (United States)
Freddie Mac	Federal Home Loan Mortgage Corporation (United States)
GAO	General Accounting Office (United States)
Ginnie Mae	Government National Mortgage Association (United States)
GSE	Government-sponsored enterprise
GST	Goods and Services Tax (Canada)

HAP	Homeownership Assistance Program (Florida)
HCDA	*Housing and Community Development Act* (United States)
HFA	Housing finance agencies
HFDC	Housing Fund Development Company (United States)
HIT	Housing Investment Trust (AFL-CIO) United States
H-M	Hochelaga-Maisonneuve (Québec)
HOME	Note: this is a program name, not an acronym (United States)
HOP	Housing Opportunities Program (Manitoba)
HOPE	Home-Ownership for People Everywhere (United States)
HPD	Housing and Preservation Department (New York)
HUD	(Department of) Housing and Urban Development (United States)
ICI	Indian Center Inc. (United States)
IRS	Internal Revenue Service
JMHP	Jackson Metropolitan Housing Partnership (Mississippi)
LCDP	Lincoln Community Development Partnership (Nebraska)
LHAP	Local Housing Assistance Plan (United States)
LHP	Local housing partnerships (United States)
LIHF	Low Income Housing Fund (United States)
LIHTC	Low Income Housing Tax Credit (United States)
LIMAC	Local Initiatives Managed Assets Corporation (United States)
LISC	Local Initiatives Support Corporation (United States)
LTV	Loan-to-value ratio
MBS	Mortgage-backed security
MCC	Mortgage credit certificate
MRB	Mortgage revenue bond
MURB	Multiple unit residential building
NAAHL	National Association of Affordable Housing Lenders
NAHA	*National Affordable Housing Act* (United States)
NCDI	National Community Development Initiative (United States)
NGO	Non-governmental organizations
NHA	*National Housing Act* (Canada and United States)
NHSA	Neighborhood Housing Services of America
NRC	Neighborhood Reinvestment Corporation (United States)
NYCERS	New York Employees Retirement System
PDF	Project development funds
PHA	Public housing authorities
PHOP	Pittsburgh Home Ownership Program
PITI	Principal, interest, taxes, insurance
PJ	Participating jurisdiction (HOME)
PPP	Public-private partnerships
PRI	Program-related investments
rgi	Rent geared to income
RHDIP	Rental Housing Development and Improvement Program (United States)
S&L	Savings and loan institution
SAIL	State Apartment Incentives Loan (Florida)
SHDM	Societé d'habitation et de développement de Montréal
SONYMA	State of New York Mortgage Agency
SHIP	State Housing Initiatives Partnership (Florida)
TVP	The Village at Parkside (Michigan)

UDAG	Urban Development Action Grant (United States)
URAP	Urban Redevelopment Authority of Pittsburgh
WCRA	Washington Community Reinvestment Association

Endnotes

1 Because most prevailing programs were jointly funded on a cost-shared basis, federal cuts for new commitments were generally matched by provincial reductions in funding, except in Québec, Ontario and British Columbia which established unilateral provincially funded programs. In Ontario, these were similarly cancelled in 1995.

2 In comparison to the non-profit housing providers in Canada, whose focus is often exclusively housing, many of the organizations involved in affordable housing development in the United States tend to have a wider scope of activity, encompassing community economic development, and are typically labelled community development corporations (CDCs).

3 These community rebuilding efforts have been strongly abetted by legislation—the *Community Reinvestment Act*. This is discussed in detail in a later section of the report.

4 This first part of the report provides an overview of a wide variety of policies and measures that have been developed and used to support affordable housing production in the United States. It is recommended that readers not familiar with the U.S. housing system consult Appendix A which describes these measures in greater detail.

5 The term "affordable housing" is used to refer to housing affordable to households with low–moderate income, typically defined in the United States relative to area family median income. It is not restricted to social housing but includes housing provided by public, private or non-profit entities.

6 A similar block grant program, the Urban Development Action Grant (UDAG) was subsequently established in 1977 and existed through 1989, when it was consolidated into the new HOME funding program. UDAG authorized grants to severely distressed cities to alleviate physical and economic deterioration and included funds to upgrade or increase the housing stock.

7 Between 1981 (the last budget of the Carter administration) and 1984, HUD's overall annual budget commitment fell from $33.4 billion to $12.3 billion, primarily by shortening the term of Section 8 commitment subsidies.

8 The affordability gap refers to the difference between the level of debt financing that can be supported at market rents versus the lower debt level supportable with lower, affordable rents.

9 Multi-family mortgage originations continued to fall into the early 1990s despite the introduction of the Low Income Housing Tax Credit in 1986 (U.S. HUD 1997).

10 A large residual interest of the federal government still existed in the form of the large stock of public housing, whose operation and capital improvements are federally funded, and of privately owned, but federally subsidized, housing. And the FHA continued to provide insurance for multi-family loans at market interest rates.

11 Although tax reform was not motivated by the treatment of housing investment alone, the common perception was that there were too many loopholes created by the tax incentive/expenditure sections of the 1981 ERTA tax code.

12 Similar to other large financial institutions in the United States, Fannie Mae has found it expedient to create a foundation which, like LISC and Enterprise, is also emerging as an intermediary providing technical assistance, educational packages, grants and preferred-rate loans to community organizations for both housing and local economic development initiatives. Fannie Mae itself is also the single largest investor in low-income housing tax credits.

13 The loans bought by the GSEs must have private mortgage insurance if the loan-to-value ratio is 80 per cent or higher. As a result, the eight private mortgage insurers have had to re-examine their own underwriting in order to stay competitive, although some have resorted to more risk-based pricing of their premiums.

14 FHA insurance is targeted to lower-income households implicitly through the cap on mortgage amount and is available to borrowers with small down payments and a more marginal credit history. However, FHA insurance, per se, plays essentially no direct role in the formation of (or incentives to set up) public-private partnerships.

15 It is extremely difficult to generate an accurate count of affordable housing production due to the informal nature of PPP development. Unlike previous housing programs which provided a count of units produced, PPPs operate outside of this formal network and when programs are involved (as they invariably are), they are layered, causing a problem with double, or even multiple counting. This estimate by Enterprise refers only to multi-family rental housing, affordable homeownership initiatives that fall outside of the LIHTC count.

16 U.S. affordable housing experts interviewed as part of this project felt that initiatives along the lines of these two examples are very rare and do not represent a significant output of affordable housing.

17 Here the term public funding refers to all levels of government. It should be noted that a significant level of cash resources is provided to municipalities through the two federal block grant programs, HOME and CDBG. In the case of HOME, a matching requirement of $1 local for each $4 federal dictates local contributions. There is no matching requirement under CDBG; however, localities do add funding to their CDBG allocation to support local initiatives. At the project funding level, funds deriving from local revenue versus the block transfers are not explicitly separated.

18 The tax credit equity is paid in over a period, varying from 18 months to six years in these cases, and requires bridge financing. This bridge financing is not reflected in Figure 2.4. See the individual case studies.

19 In the United States, fairly standard definitions have been developed to define affordability, using the AMI, usually adjusted by family size, as a reference point:
Very low income below 50 per cent AMI
Low income 50 to 80 per cent AMI
Moderate income 80 to 120 per cent AMI.

20 It should be acknowledged that some individual lenders have participated in initiatives with the CCPPPH. In particular, Van City Credit Union, through its foundation, worked with the City of Vancouver and a developer to secure a density bonus and divert this benefit to the production of affordable for-sale housing. Van City provided mortgage financing and helped to develop new legal documentation to ensure this discount is

passed on to future buyers. The point here is that participation of the lending and financial community in Canada is far more limited than it is in the United States—largely because the stick represented by the CRA is absent.

21 In Royce Dupont, the private developer apparently negotiated below-market rates on behalf of purchasers. Typically, established developers are able to negotiate favourable financing from lenders, especially when they bring in secure business, so this is not unique, nor is it significantly below market.

22 The structure and role of the Low Income Housing Fund is discussed in Appendix A (Foundation Funding).

23 This reflects the cumulative impact of approximately nine years of annual allocations of $315 million (note that tax credits cannot be claimed until project completion). The first year of allocations was 1986 with completions in 1987-88). Currently, a proposal is before Congress to increase the per capita allocation of tax credits from $1.25 to $1.75. If passed, this will raise the annual commitment to $500 million.

24 Localities have been in receipt of CDBG funds since the program's inception in 1974. Although these funds are often used in the form of deferred interest or no interest loans to help fill the affordability gap in project financing, there is a cash flow from repayments. Thus, after 24 years of cumulative grants, the loans represent a very significant asset in the hands of the localities.

25 The NAAHL was created in 1988 to provide an educational and advocacy role with, and for, financial institution executives. It has over 200 institutional members, including various types of depository institutions, mortgage companies, intermediaries and public agencies as well as professionals engaged in affordable housing financing. In addition to providing educational services promoting best practices in affordable lending, the NAAHL represents the interests of its members before HUD, Congress and the four bank regulatory agencies.

26 It should be noted that Québec represents a significant anomaly in Canada. It has traditionally placed a very strong emphasis on programs to rehabilitate and retain the existing housing stock. Also, while most other provinces have followed CMHC in curtailing new expenditure programs, Québec has announced a series of programs including the Fonds québécois d'habitation communautaire and le programme de revitalization des anciens quartier—significant funding programs broadly focussed on neighbourhood and housing revitalization (see case studies).

27 There has been a proliferation of low-down-payment mortgages in the United States, including recognition of gifts, employer contributions and sweat equity as part of very minimal down payments. Canada already has five per cent down payment (both the *National Housing Act*, NHA, and through GE Capital) and, unlike in the United States mortgage insurance premiums can be capitalized in the loan, effectively making these 97 per cent loans. Thus, there seems to be little remaining opportunity for reducing down payments in Canada. Nonetheless counselling programs, in conjunction with modified underwriting criteria, may have some benefit.

Appendix A:

Detailed Review of Measures and Mechanisms that Support the Creation of Affordable Housing PPPs in the United States

Introduction .A-2
Prerequisite building blocks .A-2
Supportive and facilitative mechanisms .A-8
Critical roles of foundations and intermediaries .A-17
Final observations .A-24

Introduction

This appendix is provided for the benefit of readers either not familiar with, or seeking greater detail on the many mechanisms and measures that exist in the U.S. housing system and which tend to be employed in PPPs.

At the end of Part 1, three categories of mechanism and measure were identified:

- prerequisite building blocks;
- supportive and facilitative mechanisms; and
- innovations and refinements.

Details on the following mechanisms and measures under each of these categories are provided in this appendix.

Prerequisite building blocks

- *Community Reinvestment Act* (1977, with 1989/1995 refinements);
- federal housing and community development legislation (Community Development Block Grant and HOME Investment Partnership);
- tax-exempt mortgage bonds;
- tax code measures (especially the LIHTC); and
- creation of intermediaries.

Supportive and facilitative mechanisms

- housing trust funds;
- equity funds (related to LIHTC);
- loan consortia;
- FHLB Affordable Housing Program (AHP);
- GSE special goals and related legislation; and
- development of a secondary mortgage market for multi-family loans.

Innovations and refinements

Many innovations and refinements have been spawned as proponents of affordable housing and have built partnerships using the mechanisms listed in the prerequisite and supportive categories above. It is not possible to provide full details of the myriad of ongoing innovations. Instead an overview of some recent examples is provided by way of illustration of the almost endless possibilities that arise from the combination of an effective set of inducements and incentives. Examples included are:

- Community Financing Consortium Inc. Affordable Housing Guarantee;
- National Community Development Initiative (NCDI);
- Section 8 Community Investment Demonstration ("Pension Fund") Program;
- Fannie Mae Partnership Offices;
- Fannie Mae Home Team Partnership with the NBA;
- Enterprise Foundation's Best Practices Data Base; and
- National Homeownership Strategy.

The following pages discuss the details on each of the measures listed above. Subsequently, an overview of national, state and local intermediaries and the role of foundations are also presented.

Throughout this appendix each section references the U.S. case studies (which follow as Appendix B in which the particular mechanism being reviewed has actually been used.

Prerequisite building blocks

Community Reinvestment Act (1977)

The *Community Reinvestment Act* (CRA) is perhaps the most critical building block in the emergence of PPPs. Stimulated by widespread practices of discrimination including redlining distressed neighbourhoods, the CRA was enacted initially with relatively weak enforcement to "encourage" financial institutions to extend credit to individuals and enterprises to invest in their local communities. The teeth of the CRA comes through the annual evaluation of each institution's activities by one of four federal financial regulatory agencies.

Under public pressure, the provisions of the CRA have been strengthened (in 1989, and again in

1995). Since 1989, each lender's performance is publicly disclosed, imposing moral suasion on the institution and inducing compliance. Public disclosure also aids community groups in their discussions with lenders. Evaluations assess the level of lending, investment and service.

More significantly, CRA performance evaluation is an important criteria in the event that the institution wishes to acquire a bank, form a bank holding company, establish a new branch office or obtain federal deposit insurance. Given the prolific nature of mergers and acquisitions in the financial services industry in the United States, this has been a powerful incentive to achieve good CRA ratings.

The CRA is relatively flexible, using broad performance tests to assess compliance. As such, an institution has considerable latitude in designing products and services to meet community need, effectively stimulating creativity and innovation. Pilot lending programs involving consumer financial counselling, and more flexible mortgage underwriting for low- and moderate-income homebuyers, are examples of responsive programs (see CMHP, Jackson and ENDC cases).

A direct outcome of the flexible nature of the CRA provisions is the considerable creativity it has spurred, as institutions have sought ways to comply with the CRA while maintaining an inherent aversion to risk. The development of lending consortia is a direct outgrowth of the CRA. PPPs provide an opportunity to minimize risk by sharing it with other private, public or non-profit partners. Moreover, PPPs can contribute to an overall reduction, not simply sharing, of risk. The provision of technical assistance and capacity building to local non-profit developers assists these groups in increasing their expertise in the development and financing process. Ongoing monitoring by equity funds and intermediaries ensures more proficient project management. Together, these activities lessen the potential for projects to experience financial difficulty—reducing risk for lenders and investors.

In addition to lending, institutions can fulfill their CRA obligations (or at least the investment component of the evaluation framework) by purchasing LIHTC equity investments, either directly, or through a pooled fund, thereby securing both a competitive rate of return and achieving their CRA rating. At the same time, tax credit equity reduces the debt level on a project, improves the debt coverage ratio, and accordingly creates opportunities for low-risk lending that can then contribute to the lender's CRA rating. Thus, these institutions are strong supporters of the LIHTC, and comprise a large and important ally in lobbying Congress to retain the LIHTC.

Some local cities have creatively piggybacked on the CRA provisions to lever private lending. The City of Pittsburgh has developed its own rating system modelled on the CRA. The city has transferred its deposits (totalling $300 million in 1989) to the five highest-rated banks in the city. Ratings are reviewed biannually with the deposits transferred to those institutions that maintain the best record of investing in needy neighbourhoods, thereby creating competition for investments.

Housing and community development legislation

The *Housing and Community Development Act* (HCDA) (1974 and subsequent amendments) and the *National Affordable Housing Act* (NAHA) (1990) have both stimulated the creation of a range of mechanisms that support PPPs. Although implemented through the legislative process, and in part regulatory, the most significant features of this legislation fall under the area of facilitative actions.

Stimulated by rising concern about urban distress, the 1974 HCDA legislation established the Community Development Block Grant (CDBG)—a formula-based allocation to support a wide range of community development activities encompassing neighbourhood revitalization, economic development and improvements to services and facilities.

The legislation dictates that 70 per cent of the funds must be used for activities that benefit low- and moderate-income persons or aid in the prevention or elimination of slums or blight.[1]

From the total annual CDBG appropriation ($4.2 billion in fiscal 1998) 70 per cent of funds are allocated to metropolitan cities and urban counties (so-called entitlement areas) while 30 per cent are allocated to other (non-entitlement areas). Under 1981 amendments, each state has the option of administering the non-entitlement funds. Communities develop their own programs based on assessment of need.

An innovative use of CDBG allocations is the Section 108 loan guarantee that was part of the original legislation in 1974. This uses the current and future entitlement as a guarantee to secure financing for housing rehabilitation, economic development and large-scale physical redevelopment.

This loan guarantee program reduces the interest rate which localities are charged on loans from commercial lenders. The guarantees also make loans more readily available and often attract other sources of funding (from local and state governments, non-profits and the private sector) to complete financing for major job creation activities.

Similar to CDBG, the HOME Investment Partnership program, authorized in 1990 under Title II of the Cranston-Gonzalez *National Affordable Housing Act* (NAHA) provides federal funds to "participating jurisdictions"—primarily local and state governments—for broadly defined housing programs. Distinct from CDBG, HOME requires a matching requirement from the participating jurisdiction (the matching formula varies based on the type of activity undertaken).[2]

The formula assesses criteria including the vacancy rate among poor renters, poverty rate, amount of substandard housing, and housing and production costs. The minimum allocation to states is $3 million. Local governments may receive an allocation of $500,000 if they qualify under the formula. In 1992, the HCDA lowered the threshold to $335,000 for currently participating jurisdictions when the total HOME appropriation is less than $1.5 billion. (The 1998 appropriation request is $1.3 billion.)

Members of Congress initiated the HOME program in an effort to consolidate a number of existing programs and to provide greater flexibility at the local level. It expresses a preference for rehabilitation as a means to increase the supply of affordable housing.

HOME investment funds can be used to support both rental and ownership housing. In the case of rental housing, rents must not exceed Section 8 existing housing fair market rent or 30 to 60 per cent of area median income, adjusted for family size. There are binding commitments to keep the housing affordable for its useful life. Homeownership housing is eligible where the initial purchase price does not exceed 95 per cent of the area median price and purchasers are at or below 80 per cent of area median income.

A minimum 15 per cent of the HOME funds received by a jurisdiction must be set aside for housing to be developed by community housing development organizations (non-profit).

Between 1990 and September 30, 1996, $3,637.6 million in HOME funds had been committed to 102,600 projects having 215,200 housing units and had provided tenant-based rental assistance to 28,300 families (HUD 1997).[3]

As discussed below, HOME can be combined with the LIHTC. When used this way, the HOME funds must be provided as a loan rather than a grant although it is quite evident from the case studies that the interest rate on these loans is typically very low. In some cases, the loans are deferred and ultimately forgivable. In other cases, loans are repayable, and thus the HOME program contributes to a revolving loan fund that the local jurisdiction can continue to recycle and use to stimulate other PPP initiatives.

Economic Recovery Tax Act (ERTA)

The opportunity to raise equity through the sale of tax credits and write-offs has been a central aspect of multi-family real estate financing for many years. Prior to 1986, this was undertaken under the general provisions of the tax code, although some specific elements provided favourable treatment for rental investment.

The 1981 *Economic Recovery Tax Act* (ERTA) shortened the depreciation period for rental investments to 15 years, and permitted acceleration such that depreciation could be claimed using a 200 per cent declining balance method. Substantial rehabilitation of a low-income property could qualify for depreciation over only five years. Rehabilitation of historic structures qualified for a 25 per cent investment tax credit, encouraging the rehabilitation of these structures. Moreover, these tax provisions also applied to passive investors, permitting losses to be applied against income from other sources.

Consequently, the first half of the 1980s featured a high level of participation from small individual investors—very different from the corporate investors that characterize the period following 1986 tax reform. These tax provisions also supported joint venture PPP initiatives related to substantial rehabilitation of rental projects. (These were prevalent in New York.)

Low Income Housing Tax Credit (LIHTC)

The enactment of the LIHTC in the *Tax Reform Act* of 1986 supplanted previous tax measures and is significantly more beneficial in targeting production of affordable housing.[4] The measure authorized under Section 42 of the Internal Revenue Code provides a 10-year stream of credits to be used against federal income tax liability for investors in qualifying rental projects. These are a dollar-for-dollar credit against federal tax payable, not merely a deduction against taxable income.

The same state housing finance agencies that administer tax-exempt bonds also are responsible for allocating the fixed amount of tax credits available each year in each state based on $1.25 of credit per capita, although there is no limit on the allocation of tax credits for projects financed with tax-exempt bonds (as the rationing mechanism comes through the tax-exempt bond, see next section). A proposal is before Congress to increase the per capita tax credit allocation by 40 per cent to $1.75 and possibly to index the level.

Developers (both for-profit and non-profit) sell or syndicate the tax credits to raise equity for the development. Investors are actually limited partners and hold an equity interest in the property. Although technically they will have a capital asset in the future, restrictions on use, and low net operating income generated by rents set at 30 per cent of area median income limit the future capacity to realize a capital gain. Consequently, investors tend to value the return on equity based solely of tax savings.

The primary investors are large corporations. Passive loss restrictions preclude the participation of small investors that typified the pre-1986 regime. Many corporations can also use the depreciation allowances against other corporate income, thus maximizing the value of the tax credit investment.

Projects qualify by providing a minimum of 40 per cent of the units to households with incomes under 60 per cent of local family median income (or 20 per cent of units to households below 50 per cent of median income) and affordable at no more than 30 per cent of income for rent. In practice, there is limited income mixing; most projects have 100 per cent of the units within these criteria.

Owners must commit to maintain affordable rents for a period of 30 years (initially 15 years but extended in 1989). Private developers (just over two-thirds of LIHTC are developed by for-profit general partners) will likely seek to sell the project to a non-profit organization after they have received the 10-year flow of tax credits. According to the 1989 requirement, owners can notify the state credit agency as they near the 15th year of their intention to sell.

If the state credit agency cannot find, within one year of the owner's 15th year notice of intention to sell, a buyer willing to maintain the project as low-income housing for the balance of the 30 years, the owner can sell or convert the project to conventional market housing and the tenants are only held harmless for up to three years, or until they move out. There seems little likelihood of this, because national organizations (such as the Housing Assistance Council) have announced to the state credit agencies their willingness to be a buyer of properties that would otherwise undergo market conversion. Failure to comply with any of the requirements results in at least partial recapture of the tax credits and payments to the Internal Revenue Service (IRS).

The value of the tax credit is calculated from the eligible basis of the project (development costs including fees, net of land), the proportion used to accommodate target households and a discount rate to reflect the fact that credits are received over a period of 10 years. Two levels of credit are available.

- For new construction projects without federal subsidies (such as CDBG, HOME or an FHA-insured mortgage), the annual credit is approximately nine per cent of the depreciable base of the project.
- For acquisition and new projects where federal subsidies are involved, the credit is four per cent per year.

The equity investment generated by the prospect of 10 years of tax credits typically covers about one-third of total development costs. Alone, it is not sufficient to achieve affordable rent levels without some other form of assistance as net revenues from rents (limited to be affordable to low-income tenants) support mortgage debt of only about one-third of total costs, leaving one-third as an affordability gap (Wallace 1995). This final third must be assembled from a variety of other sources, as outlined in the conceptual framework.

These other sources include a wide variety of participants: local governments through their use of CDBG or HOME funds, housing trust funds, local lenders participating to satisfy CRA requirements, charities and other sources (U.S. GAO 1997).

Lea and Wallace (forthcoming) report that a 1995 survey by the National Council of State Finance Agencies found that, in 1994, tax credits were allocated to projects totalling 117,000 units (73,832 new construction; 20,492 substantial rehabilitation; and 22,775 acquisition and rehabilitation). However, a separate survey conducted for HUD found that only 57,625 units were "placed into service." This difference in tax credit commitments and actual take-up reflects in part a lag between commitment and completion, but also provides some evidence that projects have difficulty filling the remaining gap, that is, they are unable to secure sufficient construction and bridge financing to cover the LIHTC pay-in period, or a sufficiently low rate on conventional financing to make the project viable.

LIHTC equity commitments typically do not flow up-front, as the case studies show. Consequently, projects must secure interim financing as a bridge between development costs and the flow of the LIHTC equity into the project. Where this bridge financing cannot be secured at rates that enable the project to be viable, the project does not proceed. Project developers have two years from the initial allocation of credits to complete the buildings and place them in service. There is a system for turning in unused credits and using them at the state level or in a national pool, but some credits obviously do expire without being used.

A number of different approaches have evolved to bridge the period between the close-out of the construction loan and the pay-in of tax credit equity. In many cases, the development profit for the general partner is at least partially deferred. To the extent that the effective total investment from the LIHTC investors can be maximized by spreading out the pay-in period, it makes sense to arrange bridge financing for those funds that are needed up front, providing the bridge financing is at a lower rate of interest than the LIHTC investors' internal rate of return. Because the pay-in is pretty low risk, this is usually the pattern. LISC, Enterprise and the various state equity funds have developed their own sources of bridge financing, sometimes through a commercial lender. A number of intermediaries pool contributions from foundations and donors to fund bridge-financing loans as "program related investments" (see later discussion on foundations).

Cummings and DiPasquale (1998) note that syndicators are increasingly providing "bridge financing" to investors, that is, providing the up-front cash to the projects and charging the investors for the service of bridging the payments. This cost of bridge financing is paid by the investor, increasing the gross equity paid for a given dollar of net equity to the project. Net equity is the total amount of equity actually invested directly into the project after syndication fees, overhead, fund-level reserve funds (meaning partnership-level reserves not project-level reserves), legal and asset management fees of the fund, bridge interest and other miscellaneous costs.

The need for supplementary funding inevitably reinforces the partnering aspect of these developments, especially those undertaken by non-profit organizations, which do not have their own equity, and must, therefore, attract funds from public and philanthropic sources. Because investors are purchasing a stream of future credits, the sales price of the credits is discounted well below the face value of the simple 10-year sum of the annual credits. The syndication fees that are extracted from these sale proceeds further reduce the actual proceeds that are used to finance the project.

A market for tax credits has developed, largely through the development of equity funds by national state and local intermediaries. In 1986-87, the credits were purchased for about 45 cents/credit dollar (sum of 10 years of annual credits). Over time, as the market for the credits has developed (again attributable to the intermediaries brokering these credits), the value of the credits has risen. Recent deals have seen credits netting over 70 cents/credit dollar.[5]

Concerns about the costs incurred in the form of transaction fees and layering of subsidies have inspired some revisions to the administration of the LIHTC. HUD now requires a review of any project in which at least 51 per cent of the value of the credits (i.e., gross equity) is not delivered to the project. In addition, allocation guidelines now encourage state allocating agencies to give priority to projects that use the highest percentage of tax credit proceeds for project costs rather than the payment of intermediary fees. (U.S. GAO 1997).

The tax-credit statute provides for a 15 per cent set-aside for non-profit sponsors, unless not claimed by non-profit applicants. About 27 per cent of tax-credit units in recent years have been sponsored by non-profit organizations with an ownership participation in the projects. A review of project characteristics shows that projects sponsored by non-profit organizations are more likely to be located in low-income neighbourhoods—those with larger percentages of minority households and with lower median rents than those developed by straight for-profit sponsors (Lea and Wallace, forthcoming).

Tax-exempt bond financing

State housing finance agencies (HFAs) were created in the 1960s with a mandate to raise financing for affordable housing. These agencies are allowed to issue bonds on which the interest is exempt from federal taxes.(At the will of state they may also be exempt from state taxes.) This represents an implicit expenditure to the federal treasury.

Since 1980, the *Mortgage Subsidy Bond Tax Act* has established annual caps on the total volume of issues by states (greater of $50 per capita or $150 million). The proceeds are used to fund below-market mortgages for both first-time homebuyers and for multi-family rental housing. These issues may fund new development or may be used to refinance existing debt at more favourable rates.

The HFAs can also issue tax-exempt bonds on behalf of charitable tax-exempt organizations' (sec 501(c)(3)) bonds—named for the section of the Internal Revenue Code under which charitable organizations are established. There is no cap on these bonds, which can be used to develop housing owned by charitable non-profit organizations. However, because they are issued for the non-profit charity, the same charity cannot form a for-profit limited partnership to sell tax credits (i.e., only the capped bond issues can be combined with an LIHTC, effectively using the bond cap to limit LIHTC volume).

The income-targeting criteria applied to the proceeds of tax-exempt bonds vary by state. However, in many cases, this financing source is combined with the LIHTC so LIHTC criteria prevail. In 1994, almost $2 billion of financing was raised for multi-family rental projects through this source and contributed to the production of just over 11,000 new units (including 3,600 developed by charitable entities) and refinancing of some 22,260 units (Lea and Wallace forthcoming). Due to the combined use of the tax-exempt bonds with LIHTCs, these are not net new units, they are also counted under the LIHTC.

In the case of single-family, tax-exempt financing, the bonds are termed mortgage revenue bonds (MRBs). In addition to issuing bonds to investors, the HFAs have the flexibility to convert the MRB budget authority to mortgage credit certificates (MCCs) which provide the purchaser with a non-refundable federal income tax credit. Eligibility for both the MRB financing and MCC includes households with incomes under 115 per cent of area median income.

In volume terms, the single-family MRB and MCC issuance activity is far larger than the multi-family activity. In 1994, MRB issuance for single family mortgages totalled some $14 billion while MCC authority totalled another $0.615 billion. MRBs were used to help finance assisted homeownership in the Baltimore-Enterprise Nehemiah case study.

Supportive and facilitative mechanisms

Housing trust funds

Housing trust funds have emerged through the early 1980s as a relatively new source of preferred rate loans and equity funding. These developed at the state and local levels in an effort to meet the growing need for project development funding in the face of federal cuts, especially the lack of funding for new project development and rehabilitation.

The trust funds were typically created by identifying and diverting existing sources of revenue, especially fees payable on real estate transactions, unclaimed tax arrears property, check-offs on state income tax returns and excess balances in tax-exempt bond reserve debt service accounts.

States and cities have also drawn on their regulatory role to exact levies against new development—so-called linkage fees, justified on the basis that new commercial development generates jobs and new housing demand. This approach is more prevalent in active markets where housing costs are prohibitive for service industry workers. Boston and San Francisco have established trust funds as depositories for funds generated through land use bonuses and linkage policies. Under such policies, developers building in the commercial downtown core are required either to develop affordable housing or to make a contribution to the trust fund in lieu of producing housing.

State and local governments have legislated other new mechanisms to capture a source of revenue;

the previously noted condominium conversion fee in Maryland is one such example. In another example, the State of Massachusetts passed an interstate banking law in the 1990s that requires a bank acquired by an out-of-state bank to set aside 90 basis points (i.e., almost one per cent) of the assets of the acquired bank for affordable housing administered by the Massachusetts Housing Partnership.

Among the case studies included here, the Florida State Housing Initiatives Partnership (SHIP) illustrates how trust funds have been used to develop local programs and to stimulate partnerships by further levering local investment in housing. In this case, the funds are generated from a stamp tax on registration of real estate transaction documents. Initially funded by increasing the amount of the stamp tax (by 10 cents from 60 to 70 cents/$100 transaction value), the revenue base was broadened by diverting a further 10 cents from the existing fee, specifically to the SHIP. In 1996, $114 million was raised through this tax; 69 per cent of this was used to fund SHIP projects.

The Tacoma Case study similarly illustrates how the Washington State Housing Trust Fund has developed a number of affordable housing programs and provided long-term, low-cost financing to facilitate a multi-family development by a community non-profit organization (also accessing funds through a lender consortia). In the Washington case, both revenues from real estate escrow accounts and state appropriations have been used to capitalize the fund.

Only one state housing trust fund existed prior to 1982 (Delaware). Since that time (through to 1996), 37 states, 39 counties and 34 cities had established trust funds (Brooks 1997).

As suggested above, some trust funds such as SHIP directly stimulate PPPs; in other cases, the availability of funds from this source simply helps to fill the affordability gap. In helping to fill this gap, often with grants or low-rate loans, trust funds become partners in PPPs.

Equity funds

The development of equity funds, distinct from housing trust funds, is a direct consequence of the legislation that established the LIHTC. As the preceding brief description of the LIHTC implies, the tax credit is a relatively complex mechanism, requiring considerable expertise, especially in packaging (syndicating and marketing the tax credit). It is unlikely that many individual non-profit would-be developers, could undertake this task without professional assistance.

Financial consultants with expertise in real estate syndication have, therefore, played a key role in mobilizing capital for development—selling tax credits and packaging funds to specific projects, while drawing fees from each transaction. In addition to private corporations performing this role, a number of state and non-profit equity funds have been established. Prominent among these are National Equity Fund, created as a subsidiary of LISC, and the Enterprise Foundation's Enterprise Social Investment Corporation (ESIC), both operating nationally, and various local equity funds such as those in Chicago and Boston.

In addition to managing the financial and legal details related to the syndication process, the non-profit equity funds perform a key role in providing bridge financing, often at below-market rates. The LISC National Equity Fund participated in the Tacoma case study, facilitating both the tax credit equity as well as a small loan.

Another case study, Affordable Housing West in Lincoln Nebraska, corresponded with the creation of a state equity fund—the Equity Fund of Nebraska—as a way to address the lack of financing for affordable housing production. In this case, the community-based non-profit organization had struggled through previous developments in which it had to assemble equity financing without an intermediary. Following this difficult process, it sought assistance from a national non-profit advisory agency—the Center for Community Change—to assist leaders from the business and lending community in developing a statewide funding strategy.[6] This process initiated the development of both a consortium of lending institutions and an equity investment fund—the Equity Fund of Nebraska (EFN).

Typical of the many equity funds that have developed around the country, the EFN is incorporated as a non-profit housing corporation with a mission to enhance the production, rehabilitation and preservation of affordable housing. Each year, the EFN sponsors the establishment of a limited partnership through which to raise equity investments. The EFN covers its administrative overhead through fees charged in putting together the limited partnership pools.

EFN provides a range of services both to investors and to non-profit developers. Investment guidelines, asset management and underwriting services have been developed to protect the investors' contributions. The EFN assists in ongoing compliance reporting, again to ensure that investors are not subject to non-compliance and recapture of tax benefits.

EFN also provides development services and technical assistance to non-profit partners that become the project owners. To ensure sound investments, the EFN becomes involved with proposed developments early in the process, helping to establish PPPs involving lenders, city and state officials and programs, and professional expertise. In this respect, the equity funds have evolved as another form of intermediary, especially at the state level (see later discussion on intermediaries).

Like most equity funds, the board of directors is drawn from community leaders, especially from the lending community. This provides both critical expertise and a level of awareness and comfort among prospective lenders that might participate in construction and bridge financing, or in purchasing the tax credits.

Since its inception in 1993, the EFN has established five equity funds, collectively raising more than $20 million in equity investment to assist in the development of 450 units of affordable housing. The fund has been creative in seeking to stretch out the pay-in period over a longer period than that typically used in earlier limited partnerships. By spreading the pay-in over seven years, contributors are better able to match the tax credit and tax losses with their annual investment. Also, with less funds advanced up front, the discount on the value of the credits is reduced. Recently, the EFN has sold the tax credits with net equity proceeds of 77 cents/credit dollar.

Spreading the pay-in period for investors necessitates bridge financing. In Lincoln, a local lender has agreed to provide this financing, at very competitive rates (5.5 per cent over a six-year term in the case study project). This loan is relatively secure as a result of the tax credit cash flow and the participation of the EFN. In addition, the lender can generate a rating under the CRA.

Loan consortia

Like equity funds, loan consortia have proliferated over the last decade, partly in response to enlightened self-interest and partly stimulated by the increasing pressure of the CRA. Consortia arrangements provide lenders with opportunities to achieve three objectives: spreading and minimizing risk, creating new opportunities to experiment and develop new lending niches (especially home mortgages to clients that would traditionally be considered less bankable) and providing a vehicle for lenders to meet the community-lending criteria of the CRA.

A fourth rationale, and one that underpinned the creation of the Community Preservation Corporation (CPC) in New York in 1974, is the desire to remedy or to recover under-performing and non-performing assets, or to stem a trend of default.

Most consortia are structured as non-profit tax-exempt organizations. Often, lenders participate in a blind pool, although a board of knowledgeable lenders makes investment decisions on the part of the pool. Most often, lending activities relate to multi-family loans, although as shown in the Charlotte case study, some involve single-family mortgage pools. Once the loan pools are established, some consortia develop their own affordable housing programs to formalize their participation in this business—selling the loans into the pool, or into the secondary market. The CPC case study is a good example.

In the early 1970s, urban decline and abandonment left many lenders holding defaulted loans and foreclosed properties. The CPC was created in 1974 as an association of almost 60 mortgage lenders and insurance companies, in response to the rapid deterioration that was blighting many inner-city neighbourhoods. Their aim was to stabilize these communities. Due to the inherent risk of lending in these marginal neighbourhoods, pooling and sharing risks presented a feasible way to attack this problem.

The CPC established itself to work in close collaboration with government, especially the City of New York—another way to share risk. Ultimately, the CPC became a knowledgeable player and advocate of regulatory change necessary to improve the climate for private investment. In seeking to integrate public and private financing, the CPC worked closely with the city to consolidate and streamline a number of city programs and provided a one-stop access to this assistance, mainly involving rehabilitation loans.

As the CPC became active, concentrating initially at the fringe of distressed areas to stop the deterioration, it found that the small scale and inexperience of owners was the primary problem. This, coupled with the advancing deterioration, precluded access to the capital necessary to maintain and upgrade properties. Thus, servicing small entrepreneurs became the mainstay of CPC lending.

The CPC was initially capitalized by participating lenders who, in addition, contribute to a revolving line of credit. The CPC then uses these funds for secured construction rehabilitation loans, provided by its sponsoring banks. CPC also originates and pools permanent financing loans (which can also be packaged and sold through MBS). The CPC also helps small entrepreneurs to access public programs (in particular the City of New York Participation Loan Program that provides low interest funds, originally from the city's CDBG allocation). CPC loans are made at market rates and, while streamlined and customized, underwriting criteria (loan-to-value ratio and debt coverage) are not concessionary. All public loans are subordinate to the private CPC-placed financing in order to minimize risk (and reduce interest rates) for private funds.

The activities of the CPC, and the role of PPPs in New York, have been further enhanced through the credit enhancement process. The State of New York created a state mortgage insurance agency to share the risk of investment in low- and moderate-income neighbourhoods. With mortgage insurance in place, the CPC is able to sell the mortgages into the secondary market, in particular to pension funds.

The CPC small building loan program is profiled in one of the case studies. Another loan consortia identified in the case studies is the Washington Community Reinvestment Corporation, initiated in 1991, more directly as a response to the urging of regulators dismayed at the low levels of compliance with the CRA. An example of consortia lending for individual home mortgages is also provided from Charlotte. An association of local lenders works with the Charlotte Mecklenburg Housing Partnership (CMHP), specifically to provide a mortgage pool for low-income buyers qualified through the partnership.

PPPs are a particularly attractive vehicle for consortia lenders as the effective loan-to-value ratio on many of these loans (and thus the risk) is significantly lowered as a result of the layering of subordinated public funds and, in some cases, tax credit equity.

Schon (1995) reported that at least 33 affordable housing loan consortia existed in 1995. In a 1994 survey, 30 reporting consortia arranged financing totalling $444 million involving some 405 projects (and almost 800 individual homes), covering both construction and permanent financing. Most of these loans represented one layer of multi-financing deals, and over 40 per cent of the dollar value relates to projects using the LIHTC (Lea and Wallace forthcoming).

Federal Home Loan Bank (FHLB) Affordable Housing Program

Another layer of project financing which affordable housing developers can use to lower their financing costs are two programs initiated by the FHLB system.

The FHLB system is a federally chartered group of 12 regional banks that make loans, known as advances, to member financial institutions across the nation. FHLBs were specifically created, in 1932, to provide a source of liquidity and long-term financing to member savings and loans institutions (S&Ls), when liquidity was a serious problem during the Depression.

The FHLBs are now joint stock cooperative institutions owned by their members. (Membership was expanded to include commercial banks in 1989.[7]) They mobilize capital by issuing debt and making loans to their members.

The FHLB Act of 1990 imposed new regulations on the FHLB system, largely as a legacy of the thrift bailout, to create two programs to fund affordable housing—the Affordable Housing Program (AHP) and Community Investment Program (CIP). Effectively a tax on the FHLBs, the Act requires them to contribute the greater of $100 million or 10 per cent of the previous year's net income to an AHP.[8] This program then funds subsidized loans and other assistance to FHLB members which can, in turn, finance affordable housing rehabilitation and development. The form of assistance is either through a subsidized interest rate or a direct subsidy to qualifying projects.

By 1994, the AHP had made subsidy commitments of just over $300 million involving 8,200 units. Two-thirds of the subsidies were for multi-family projects, one-third for ownership housing. Beneficiaries in both cases are moderate- and low-income households.

The member banks of the FHLB have flexibility in tailoring their own local AHPs, drawing from the pool. The Lincoln case study involved an FHLB lender that accessed the AHP to finance a small loan at zero per cent on which payment was deferred, effectively making this a grant, provided the project continues to serve a low-income target.

The CIP is a discounted loan, not a subsidy program and provides only a modest reduction of 15 to 25 basis points on loans, most of which (72 per cent) relate to ownership housing.

The FHLB programs do not explicitly require partnerships, but this financing is typically one layer that is used in partnership developments as a part of the overall strategy to minimize debt costs and thereby achieve affordable housing.

GSE goals/development of a secondary mortgage market for multi-family loans

Government-sponsored enterprises (GSEs) have been established in the United States specifically to develop a secondary mortgage market. The First Federal National Mortgage Association, commonly known as Fannie Mae, was established in 1938 with the purpose of creating a secondary mortgage market into which mortgage lenders could sell FHA-insured mortgage loans. Its intent was to increase liquidity in mortgage markets.[9]

When privatized in 1968, Fannie Mae's role shifted from purchasing FHA-insured mortgages to purchasing conventional mortgage loans (insured by private insurers, not the FHA). A new federal agency, the Government National Mortgage Association (Ginnie Mae) was concurrently created to take on the role of purchasing FHA insured mortgages. Ginnie Mae initiated the mortgage-backed securities by pooling the FHA-insured mortgages (as distinct from selling individual loans which had been the standard practice used by Fannie Mae) and selling them with a guarantee of timely payment.

Shortly after the creation of Ginnie Mae, the FHLB lobbied Congress to establish a similar institution for the S&Ls (as distinct from the commercial and mortgage banks served by Fannie Mae). Thus, the Federal Home Loan Mortgage Corporation (Freddie Mac) was established, in 1970, also as a GSE. Today, Fannie Mae and Freddie Mac compete for the same primary market customers (privately insured loans from commercial banks, mortgage banks and thrifts) and the same investors in mortgage bonds and mortgage-backed securities.

It is really only since the early 1980s that the secondary mortgage market (and MBS in particular) has grown in a significant way, and much of this relates to homeowner mortgages. The secondary market in multi-family loans developed slowly and with greater caution, reflecting the greater risk associated with multi-family loans, especially in the face of high defaults on FHA multi-family loans in the 1980s (Wallace 1994).

The critical importance of the GSEs is in their influence over primary lenders, and their obligations as GSEs. As federally chartered (and previously federally capitalized) institutions, GSEs have a close relationship with government and are perceived to benefit from an implicit government guarantee allowing them to issue debt at rates comparable to treasury bonds. They also benefit from security law exemptions and treasury authority to purchase securities.

Reflecting their initial public status and ongoing special relationship with government, the GSEs accept a role in serving a public purpose, despite the fact that they are now private stockholder-owned tax-paying corporations. They are important instruments in governments' policy tool bag, providing securitization and necessary capital as well as leadership to attract pure private investment in revitalizing communities and developing affordable housing.

In creating the secondary market for mortgage loans, the GSEs have played a lead role in creating and imposing specific underwriting standards to protect investors in their secondary market products. Because the secondary market has become such an important vehicle—75 per cent of mortgages originated in 1995 were sold through the secondary market—the GSEs essentially set the standard for underwriting (Diamond and Lea 1995).

Standardization in mortgage products has created efficiencies and acted to lower borrowing costs. At the same time, there have been some adverse effects, particularly on households at the margin—those traditionally precluded from ownership by low income, which have more recently become the target for many ownership-enablement strategies.

The GSEs, and particularly Fannie Mae, have led the way (partly in response to public pressure and partly legislative) in creating programs and underwriting criteria to assist new affordable housing. Private mortgage insurers and local lenders, in turn, have responded by developing their own products piggybacked on the GSE criteria (providing the assurance that the originating lender can sell these mortgages and diversify risk).

Again, the indirect influence of the CRA comes into play. The special products developed in conjunction with the GSEs facilitate the achievement of CRA ratings.

Responding to a federal policy emphasis on promoting access to ownership, in 1987, Fannie Mae established an office of low- and moderate-income and community lending, specifically to develop products for these traditionally marginal homebuyers and those that have been precluded. These activities span public financing (through bonds and tax credits), single and multi-family community lending, equity investment and specific targeted programs.

Fannie Mae has developed a range of model programs (on which local lenders can build). Generally, these permit more flexible underwriting and lower down payment. Establishing a credit rating by reference to utility payments or a previous rental landlord, is an example of non-traditional underwriting. The basic model combines market-rate first mortgages with subsidized or soft second mortgages, provided through state or local programs, or non-profit agencies. Often, non-profit agencies are involved, providing debt and financial education and counselling, and sometimes backing the mortgage (see, for example, the Charlotte Mecklenburg, Voskamp Village and Jackson case studies).

Fannie Mae's 3/2 option was introduced in 1991 to lower the cash down payment to three per cent, with the remaining two per cent coming as a gift or unsecured loan from a non-profit or public entity.

Fannie Mae similarly developed programs to encourage lenders to originate loans to meet the needs of the elderly, through the purchase of loans financing accessory apartments and home equity conversion mortgages. It assists rural residents; in a partnership with the Farmers Home Administration (FmHA), Fannie Mae supports no down payment loans (insured by the FmHA).

Recognizing the needs of low- and moderate-income households, particularly those employed in the service industry, Fannie Mae developed a product to support employer-assisted housing—the Magnet Program—again providing flexible underwriting to recognize employer contributions to down payment, closing costs or monthly payments.

In each case, Fannie Mae works through a national network of approved lenders and private mortgage insurers (all loans above 80 per cent loan-to-value ratio require insurance) and these partners use the Fannie Mae underwriting criteria in each of these model programs to customize their own products to make them responsive to their community. One example, initiated in partnership with a private mortgage insurer, GE Capital is the GE 97. Established in 1994 as a pilot with Fannie Mae to provide for only a three per cent down payment, this features buyer education and a delinquent borrower counselling service. The First Union Affordable Mortgage products, illustrated in the ADU Ordinance and Catholics for Housing case studies are further example of this multiplier effect at the lender (loan origination) level.

Freddie Mac has developed a parallel series of programs under the title of Home Affordability Program. One particular program, the Michigan Initiative, permits recognition of a sweat equity allowance up to 2.5 per cent of the loan-to-value ratio.

The impact of the GSEs was further reinforced under the 1992 *Federal Housing Enterprises Financial Safety and Soundness Act* (FHEFSS). Following on the recommendations of the National Task Force of Affordable Housing, and motivated by the persistent shortfall in affordable housing, this Act legislated the two (GSEs) to expand their existing secondary-mortgage-market programs to better accommodate affordable housing development, and included specific targets for the purchase of multi-family rental loans targeted to low-income housing. Specific annual goals on the purchase of mortgages were established; 1996 goals as a percentage of all loans purchased were:

- Special affordable goals:
    - mortgages on ownership units where the owners are low income and the home is located in low-income areas, or very low income located anywhere: goal six per cent of all loans purchased; and

  - mortgages on rental projects located anywhere but with units affordable to very low-income families: goal six per cent of all loans purchased.

- Loans targeted to moderate- and low-income families: goal 40 per cent of all units with mortgages purchased by each of the GSEs.

- Under-served area goal (targets areas not well served by market): goal 21 per cent of all units with mortgages purchased by each of the GSEs.

This has stimulated further liberalization of mortgage underwriting guidelines and has led to revisions in the products offered under the umbrella of Fannie Mae's Community Lending Programs and Freddie Mac's Home Affordable Programs. The revisions have encompassed reduced down payment (three per cent) and greater acceptance of third-party contributions to down payment and closing costs, alternative sources to establish credit histories, higher debt ratios and reduced reserve requirements (e.g., waiving requirement that borrowers have a liquid reserve to cover two months of principal, interest, taxes and property insurance).

Again, with many of the innovative new products premised on enhancing the credit worthiness of borrowers and mitigating the risk inherent in more liberalized underwriting, many of the products developed reflect partnerships, often drawing in state and local participation and non-profit and community-based organizations. A considerable effort is devoted to reducing the inherent risk of high-ratio lending to low-income families through counselling, education and monitoring programs offered both by community organizations and, in some cases, lenders themselves.

In the many local city partnerships that now exist and in which local lenders are typically involved, the affordable housing products developed by the GSEs are a basis for expanding current local initiatives and a testing ground for ongoing innovation and adaptation of these products, often expanding the role of PPPs.

Innovation and refinements

The various measures described above have created a foundation on which many partnerships have been developed. As different mechanisms have been established, they have acted to stimulate other innovations, such as the spin-offs from the GSE underwriting and legislated goals, and the development of specific initiatives and programs at the local level already noted above. These measures add new features to broaden the scope of partnership approaches. Some recent examples include:

- The Community Financing Consortium Inc. (CFC) Affordable Housing Guarantee. This is a pilot program initiated by this Florida lender consortium in partnership with the state HFA and Freddie Mac. Individual lenders originate mortgages to low-income households that would be non–conforming under standard underwriting practices, and sell these loans to the CFC loan pool. The HFA guarantees the top 15 per cent of any losses in the pool.

- Freddie Mac agreed to purchase $100 million of these state-guaranteed mortgages from the pool. The CFC operates a homebuyer counselling program as a method of reducing delinquent loans and potential losses. Loans are slightly below market, and the state guarantee premium is lower than private mortgage insurance. Each CFC lender agrees to reinvest in the community the equivalent in loans sold to Freddie Mac under the program. This is a cornerstone in the CFC's efforts to link lenders' need for liquidity with the public's need for additional, accessible mortgage capital.

- The National Community Development Initiative (NCDI), a partnership between HUD and a group of corporate and philanthropic funds to promote community investment by providing low-interest loans and grants to community development corporations (CDCs).[10] Since 1991, the consortium of NCDI funders has committed $248 million and is levering an additional

$2 billion to create decent housing, jobs and renewed neighbourhood vitality in low-income inner city neighbourhoods. The Local Initiatives Support Corporation (LISC) and the Enterprise Foundation serve as intermediaries for NCDI. They manage the investments and contributions, and provide assistance to the CDCs.

- Section 8 Community Investment Demonstration (Pension Fund) Program. Section 6 of the HUD *Demonstration Act* of 1993 establishes the Section 8 Community Investment Demonstration program, which is designed to attract pension fund investments to affordable housing. Section 8 project-based rent subsidies are earmarked for use in projects financed by pension funds. This rent supplement guarantee secures the cash flow in the project, providing loan security.

- Fannie Mae Partnership Offices. Opened in 28 communities, these offices have the objective of bringing together lenders, city agencies and community-based groups to work to increase affordable homeownership and rental opportunities for individuals in these central cities and under-served communities.

- Creation of the Fannie Mae Foundation. In 1993, Fannie Mae created a separate non-profit foundation to complement its activities in affordable housing and community development. The foundation, capitalized with stock from the corporation, has developed a number of loan, grant and award programs to provide financing and assistance to affordable housing partnerships. With these initiatives and the financial backing of its parent company, Fannie Mae is emerging as another major national intermediary alongside LISC and Enterprise.

- Fannie Mae Home Team Partnership. One of the new foundation's activities is a partnership with the National Basketball Association whose participation in home fairs and construction bees raises public awareness and investment in neighbourhood revitalization. Fannie Mae also sponsors an annual Partners in Housing Award to recognize local realtor associations that work with non-profit organizations to expand affordable housing opportunities.

- The Enterprise Foundation's Best Practices Data Base. It provides a wide range of information and model documentation to assist community groups in their affordable housing initiatives.

- The National Homeownership Strategy. Announced by President Clinton in June 1996 to raise the level of homeownership to a record high of 67.5 per cent, the strategy has invoked a series of partnerships, generally related to consumer education. HUD has awarded $3.5 million in housing counselling funds to national housing counselling agencies, including ACORN Housing Corporation, Catholic Charities, the National Association of Housing Partnerships, the National Foundation for Consumer Credit (NFCC) and the Neighborhood Reinvestment Corporation (NRC).

- On the same basis, the American Bankers Association in partnership with the NRC and the NFCC is coordinating education, counselling and lending efforts to ensure low- and moderate-income households are able to secure mortgage financing and reach their goal of owning a home.

The case studies illustrate how some of these recent innovations have been used to reinforce PPP activities. The Section 8 Pension Fund demonstration was used to provide one layer of the financing on El Azteca, a very low-income rental project. Charlotte (CMHP) enhanced its ongoing neighbourhood revitalization and homeownership initiative by incorporating the Fannie Mae/NBA Home Team Partnership.

Overall, PPPs utilize a wide and, indeed, expanding array of mechanisms and partners. Each mechanism or layer helps to reduce or spread risk, or expand the initiative to serve more households, and to attract additional partners. This suggests that PPPs in the United States have reached a stage of maturity, and are likely a permanent fixture in the affordable housing landscape.

Critical roles of foundations and intermediaries

Much of the success in developing affordable housing through partnership efforts is attributable to the activities of the philanthropic sector, foundations and their specialized creation, intermediaries. Here we briefly describe how foundations initially, and more recently, intermediaries, have been catalysts in this area.

Foundation funding

The U.S. benefits from a large number of foundations—many formed from the endowments of successful wealthy industrialists in the last century. The Foundation Center reports that more than 40,000 private foundations filed an information return with the Internal Revenue Service in 1997. Major foundations, defined as those holding more than $2 billion in assets or distributing annual grants in excess of $200,000, were reported to number 7,900 in 1997 (Foundation Center 1998).

This represents three types of foundation: private family foundations, with their initial endowment typically deriving from the fortunes of 19th century industrialists; more recently, foundations created as the philanthropic arm of major corporations, using corporate giving as both a public relations marketing tool and a tax benefit; and community foundations, which consolidate contributions from individuals and organizations (including the corporate sector). Donors to community foundations are able to designate how they wish to see their funds allocated, and much of this funding flows through community foundations to cultural activities, as well as health and human service activities.

Although the number and size of foundations in the United States is very significant, their impact on the production of affordable housing through direct capital contributions is quite small. The more important contributions of philanthropy and foundations are:

- their earlier role in helping to create the community infrastructure that now delivers much of the affordable housing, namely community development corporations; and
- their influence on public policy reform including significant funding of education, awareness and advocacy activities among the CDCs.

As discussed in Part 1, during the 1960s and 70s, foundations, and especially the Ford Foundation, were instrumental in building capacity at the local level, most particularly in the form of CDCs. This funding typically took the form of seed funding to help establish CDCs and sustain them through their initial years.

The activities of CDCs were broadly focussed on local economic development—education and training, as well as community organizing, although they slowly evolved into housing activities, primarily rehabilitation. Now CDCs are key actors as initiators and owners of affordable housing projects, especially those developed using the LIHTC.

The Ford Foundation was a major influence in this area. It was the first major foundation to focus efforts on poverty and slum conditions in the industrialized north. In its initial project—the Gray Areas Project—Ford contributed $12 million annually in the early 1960s to improve education and job training. In 1972, the Ford Foundation established the Neighborhood Housing Services of America (NHSA) to forge a partnership between local banks and municipalities with the objective of encouraging lending in redlined and decaying inner city areas. (NHSA is discussed in the next section.)

Based on this early experience of capacity building at the local level, Ford went on to create the Local Initiatives Support Corporation (LISC), which has evolved as one of the major national intermediaries in the United States. The catalytic role of the Ford Foundation in supporting the growth of CDCs and then establishing LISC, and the similar role of philanthropist James Rouse in establishing the Enterprise Foundation cannot be understated. (Each of these intermediaries is discussed in the next section.)

During the 1980s when the issue of homelessness became increasingly visible, in part associated with economic restructuring and industrial decline, especially in the Northeast, a number of foundations became active in providing funding to support services in homeless shelters. An example of this approach is the Robert Wood Johnson Foundation and the Pew Foundation, which together provided over $25 million over five years to establish comprehensive and coordinated health care programs for homeless people in 19 cities.

The other important outcome of foundation funding and support for local capacity building is grass-roots pressure for reform and funding on all levels of government but especially at the local level. Election of reform-minded politicians can stimulate progressive programs and local initiatives such as stronger enforcement of health, safety and building maintenance by-laws, promoting linkage fees on commercial development and the creation of local housing partnerships.

The second aspect of this reform process is the role of philanthropists and the boards of foundations, typically comprising "establishment" representatives in networking and lobbying. This influences policy development and, in the case of networking in the financial services, encourages participation in partnerships, loan pool consortia and special initiatives.

In terms of direct capital funding, the proportion of foundation grants that flow into housing is very small relative to the aggregate level of foundation granting. In 1995, foundations allocated $77 million, 1.2 per cent of total foundation giving, to the category, housing and shelter (Dreier 1997). Much of this is directed to homeless shelters. This category likely excludes funding given to CDCs for community improvement and development, and general capacity building, some of which relates to development of affordable housing.

More often, foundations support affordable housing indirectly by making grants to specialized intermediary organizations which then use these to capitalize loan funds (supporting both concessionary and bridge financing loans). One reason for this is that foundations recognize the specialized expertise required to develop housing—expertise that they often do not possess. Also, housing development involves both risk and significant levels of capital. Risk is better managed by using the intermediary, while large capital requirements can best be met by pooled funds. Often the amount contributed by a single foundation would be insufficient by itself to support a viable low-income project. The recently funded NCDI mentioned above is an example of this indirect capacity-building type funding support; foundations contributed $85 million in 1996 to the NCDI to support local initiatives (including some housing).

The McKnight Fund (incidentally one of the funders of the NCDI), one of the larger foundation funds in the United States but which invests primarily in Minnesota, identifies affordable housing as a critical adjunct to helping families obtain and retain a job and support a family. Despite its size, McKnight supports housing primarily by providing grants to specialized intermediaries like the Family Housing Fund (a local intermediary serving the twin cities that packages financing to develop partnership financing such as that illustrated in the case studies). When it was created in 1980, the Family Housing Fund was entirely funded by the McKnight Foundation. Since then it has expanded its funding base to include a range of foundations, and generated development and syndication fees through its activities.

Foundations have played an important role in the creation of other specialized low-income financing intermediaries, such as the Low Income Housing Fund (LIHF) which assisted in financing Affordable Homes West in Lincoln, one of the case studies.[11]

Created in 1984, with grants from a number of foundations and a religious institution, LIHF provides direct lending and loan packaging for community-based non-profit development. Capital grants and loans continue to form the core of LIHF's revolving loan program, and many of these originate from foundations and corporations.

LIHF provides technical assistance both to community groups and to non-profit lenders, foundations and conventional lenders. It operates a revolving loan pool providing short-term development loans with flexible underwriting; loan packaging to conventional lenders and institutional investors (in the case study, it packaged a loan to a pension fund); and has established mortgage bank pools in San Francisco, Southern California and New York. LIHF also operates small mortgage guarantee and interest rate write-down programs and provides secondary mortgage marketing through Fannie Mae

A few foundations do formally develop and operate their own housing partnership programs. Again, the form of funding is not typically capital development funding. Reflecting both the complexity of housing development, as well as the strong tradition of foundations in funding human services, those foundations that do identify a specific granting stream for housing and community revitalization tend to support the services provided within affordable housing, as well as community organizing and capacity-building activities, rather than the production of the housing itself. They also support research and advocacy work.

The Boston Foundation, one of the largest community foundations in the Northeast (with assets of $550 million and annual grants of some $20 million) is a strong supporter of affordable housing. In 1983, it was the founding funder of the Metropolitan Boston Housing Partnership, contributing $500,000 to capitalize the start-up of the partnership. Also in the early 1980s it invested $2 million to assist LISC in establishing its first city-based LISC office in Boston. These types of investment are typical of many foundations. Rather than making equity investments in housing development, it focusses on investing in developing the strength and expertise of intermediaries, which in turn reinforces investment in building the capacity of CDCs.

Another example of this is the Surdna Foundation, a large foundation operating at the national level.

Established in 1917 by a successful entrepreneur and investor, and owner of the Arlington Chemical Company, the Surdna Foundation family added a community revitalization program to its activities in 1989. Its purpose is to:

- increase the availability of affordable housing for low-income individuals;
- help low-income individuals move from welfare dependence to economic independence; and
- strengthen families by enhancing and expanding early childhood initiatives for the birth-to-three population in both child care and family support fields.

The Surdna Foundation is particularly supportive of programs that are integrated into a local comprehensive approach to neighbourhood revitalization.

From the grants awarded in 1997 it is possible to see the range of supportive activities funded. (These are selected examples from the approximately 50 grants awarded totalling over $4 million.)

- The National Housing Institute ($50,000) to broaden *Shelterforce* magazine's coverage of community development issues, add a full-time associate editor position and launch a World Wide Web site on the Internet.

- Manna, Inc., Washington, D.C. ($110,000) to expand Manna Community Development Corporation's affordable housing development, homeownership counselling, community building and commercial revitalization activities in the Shaw community.

- Low Income Housing Fund, San Francisco, California ($75,000) to establish additional flexible financing products for low-income housing development, explore new economic development programs, enhance its hands-on technical assistance to real estate developers and small businesses, and increase affordable homeownership.

- Corporation For Enterprise Development, San Francisco, California ($15,000) to co-sponsor a meeting on asset building and savings strategies in low-income neighbourhoods.

- National Community Development Initiative $2 million over four years. (See discussion under Innovation and refinements in previous section.)

Although not a foundation as much as a fund-raising entity, the United Way has also been a major conduit for charitable donations, especially individual contributions. The United Way has typically contributed to traditional charities like the Red Cross, boys and girls clubs, and the Salvation Army. Growth in community activism and pressure on the United Way led to a shift in its funding in the 1980s to assist the activities of CDCs and to fund shelters for the homeless. In a pioneering action in 1983, Boston's United Way joined with LISC to create the Neighborhood Development Support Collaborative to provide multi-year support funding to CDCs (Dreier 1997).

This broadly expanded the United Way involvement in housing issues and, in 1988, encouraged by a Ford Foundation grant, the United Way of America created its own national housing initiative. This initiative provides challenge grants to local chapters to encourage local United Ways, business and foundations to provide financial and technical support to increase local CDC's capacity to produce affordable housing development. Between 1988 and 1996, the United Way's funding for affordable housing increased from $22 million to $36 million (Dreier 1997).

In addition to grants, another vehicle used by some of the larger foundations is program-related investments (PRIs). These are typically low-interest short-term loans to promote local micro-business development and the production of affordable housing, such as construction and bridge financing, or to capitalize revolving loan funds.

One foundation that does directly fund housing development is the Fannie Mae Foundation, created by the Federal National Mortgage Association (Fannie Mae) as its philanthropic subsidiary. Fannie Mae is unique in the extent of direct capital funding and PRIs directed to housing. Its activities reflect its specialized expertise and interest in this area.

Although the Fannie Mae Foundation has existed for many years, in 1995 its profile and scope was significantly increased through a corporate stock restructuring in the parent company which endowed the foundation with $350 million in common stocks to expand its charitable and affordable housing initiatives. In 1996 Fannie Mae Foundation provided 32 loans totalling $4.7 million, and by the end of 1996 held a PRI portfolio of $7.3 million. (Fannie Mae's broader role as an intermediary is presented in the next section).

Overall, foundations have played an important contributing role in establishing the local infrastructure and expertise upon which many PPPs and affordable housing projects have been created. The key observation from this review is that their contribution has been much more significant in the area of capacity building, investing in both intermediaries and local CDCs. Despite the very large level of financial resources held by, and flowing through, foundations their direct contribution to capital funding is quite limited—and typically indirect flowing through more specialized intermediaries. These are the subject of the next section of the report.

Expanding network of intermediaries

With efforts to address affordable housing provision heavily focussed on the debt component of project development, and many measures involving some aspect of financing, the process of developing affordable housing has evolved into a relatively complex undertaking—far more so when added to the already challenging process of multi-family property development. The fact that a relatively successful system has been developed in the United States is, in large part, attributable to the role of financial intermediaries—organizations that provide specialized skills and the influence necessary to mobilize capital for affordable housing production.

Intermediaries have been created at both the national and local level.

National intermediaries

At the national level the largest and most important financial intermediaries are:

- Local Initiatives Support Corporation (LISC) created in 1980 by the Ford Foundation;
- Enterprise Foundation founded by real estate developer James Rouse;
- Neighborhood Reinvestment Corporation established by Congress in 1978; and
- the Fannie Mae Foundation.

These organizations each work with local community development organizations, although each has a slightly different emphasis. LISC, created as an offshoot of the Ford Foundation's involvement in nurturing community economic development in the 1960s, is more broadly focussed on capacity building and comprehensive neighbourhood revitalization. LISC's original geographic focus was on the declining industrial centres of the Northeast and Midwest. Enterprise was created by wealthy real estate developer James Rouse with a more specific focus on assisting in the development of low-income and very low-income housing.

The Neighborhood Reinvestment Corporation was created by Congress specifically to mobilize reinvestment in declining communities.

A recent addition to the list of major national intermediaries, Fannie Mae, through its newly created foundation, also provides capacity-building, technical and financial advice to CDCs.

Each of these intermediaries provides three key types of service:

- a conduit for private capital investment in projects being developed by local community non-profit organizations;
- technical assistance in project development and financing; and
- capacity building within the community organizations.

In many cases, local partnerships have been established under the guidance of one of these intermediaries. They also maintain active interest in public policy and (together with many other national umbrella organizations and foundations) have been effective agents of change in lobbying for community development and housing programs. Both LISC and Enterprise were active in lobbying for the creation and extensions of the LIHTC. Their blue ribbon boards add considerable weight to this lobbying function.

The principal output of these intermediaries is the creation and support for PPPs. High-profile benefactors, an ability to attract national leaders to their boards, and staff with a high level of expertise and knowledge about public funding programs and private finance are all critical elements in their success. They have developed strategic partnerships with various foundations, corporations and indeed the federal government. For example, LISC and Enterprise serve as intermediaries for the NCDI, described above.

While serving a social role, these intermediaries have functioned very much like private corporations, developing profitable product lines to fund their activities. LISC was initially funded with $10 million in grants from the Ford Foundation and seven other corporations and foundations. This capital base had expanded to over $300 million by 1989. In addition, as effective community builders and non-profit corporations, they attract considerable charitable donations.

The Enterprise Foundation provides a useful example of how these intermediaries operate to facilitate PPPs. Technical assistance begins with the establishment of a partnership with a local community development group. Enterprise began by working with six groups in 1982 and had expanded this network to over 700 in 1996. Enterprise staff work with the local group to help them identify and build community assets. Often working in distressed areas with high unemployment, they establish links with training and employment agencies and have created a jobs network for job placement, helping families generate the income to then pay for their affordable housing.

To help build local capacity, Enterprise provides training to non-profit groups in operations management, financial management, staff relations, communications and fund-raising.

In addition to providing expertise in project development and financing, Enterprise and LISC have both created a number of subsidiaries. Both have created investment funds (Enterprise Social Investment Corporation and the LISC National Equity Fund) for corporate investors wishing to utilize the LIHTC. Investment in the LIHTC bears some risk for investors and they seek to minimize this by working with organizations that have strong expertise in non-profit development. LISC and Enterprise add a level of comfort for investors by implicitly backing the formal general partner developing the project.

The equity funds of these two national intermediaries have become the largest syndicators of tax credit equity. Distinct from private syndicators, but similar to the state equity funds, they recycle revenues generated through syndication activities to support their other community development and housing activities.

Using funds generated through grants and donations (primarily from foundations and corporate donors and more recently the NCDI funds), LISC and Enterprise help put together a workable financing package minimizing risk both to equity investors and private lenders involved in the project.

Enterprise has created a mortgage investment subsidiary, which is approved as a special Fannie Mae lender, enabling Enterprise to provide permanent financing (and then sell these to Fannie Mae to recycle funds for additional loans). The LISC similarly created the Local Initiatives Managed Assets Corporation (LIMAC) to create a secondary market for community development loans. LIMAC creates a source of capital to support social investment lending, including business loans as well as housing development and rehabilitation.

Enterprise has also created a development arm, the Enterprise Construction Corporation, which developed the modular homes constructed in the Enterprise Nehemiah case study.

Somewhat distinct from Enterprise and LISC, both privately initiated, the NRC was created by Congress in 1978 (PL 95-557), largely in response to public outcry over the practice of redlining (avoiding certain low-income areas, especially inner city neighbourhoods) by the mortgage banking industry. While the practice of redlining may have been an exercise in prudence on the part of risk-adverse lenders, it also contributed to the downward spiral of disinvestment in neighbourhoods as potential investors and homebuyers were not able to secure financing.

Congress sought to address this by establishing the NRC as a financial intermediary specifically to provide loans for purchase and rehabilitation of homes in these areas. NRC works with its local neighbourhood housing services organizations to build a partnership network (under the NeighborWorks program) of lenders, local officials and neighbourhood residents to develop a strategy to stabilize and revitalize these declining areas. NRC provides training and technical assistance focussing on local organizing and creating local capacity to manage a revitalization effort. They also work to organize lenders to establish lending pools as well as providing start-up grants, low-cost loans and revolving loan funds. The fiscal 1997 federal funding for NRC was $49.9 million.

Creating opportunities for homeownership and providing rehabilitation loans to existing owners is the primary means of stabilization. NRC is assisted by a sister agency, the NHSA which was concurrently established to create a secondary market for homeowner loans in these communities.

The NHSA has been a key in stimulating revolving loan funds. Local funds are created, with capital contributed from foundations and corporations.[12] The loans are made to low-income owners at below-market rates and flexible terms. As a result, these loan pools recapitalize slowly. To increase the flow of funds to meet demand, NHSA purchases blocks of loans (at par) from local pools and sells these to social investors prepared to accept charitable rates of return.

The NRC/NHSA also provide technical assistance in multi-family rental development, although the majority of their activity is in the area of community building and homeownership assistance.

State and local intermediaries

Like the NRC, Enterprise and LISC, local CDCs have helped to create and nurture many local partnerships, functioning as local intermediaries. In many cases, these local CDCs have developed partnerships with cities and private funders as a catalyst for the development and funding of local initiatives. These too help to attract capital investment and are a form of local intermediary in the sense that they facilitate local initiatives and attract capital investment.

In efforts to expand community development activities in the 1970s, the Ford Foundation actively supported the development of PPPs in a number of cities: Pittsburgh, Philadelphia, Denver, Washington, Baltimore and Cleveland. Many of these took on housing rehabilitation and development activities.

One of the earliest housing partnerships—the Boston Housing Partnership—was established in 1983, the heyday of the tax syndication era, as a coalition of Boston's large financial institutions, state and local government, and community organizations. Working as part of a collaborative and comprehensive effort, with access to public funding through the CDBG, lenders were willing to collectively finance rehabilitation of over 700 units in 69 buildings.

The case studies profile other local partnerships, including the Jackson Metropolitan Housing Partnership, which was created with the assistance of Enterprise, Charlotte Mecklenburg Housing Partnership and various local partnerships nurtured by the Florida State Housing Initiatives Partnership (SHIP). The two case studies in Pittsburgh both benefit from a citywide partnership—the Pittsburgh Partnership for Neighborhood Development—one of the oldest city-based partnerships.

As noted in Part 1, the development of locally based CDCs, many of which have become involved in affordable housing rehabilitation and development and are the building blocks for community revitalization, have been assisted by another type of intermediary, focussing on local capacity building. One of these, the Center for Community Change, was the catalyst in building the PPP infrastructure to develop affordable housing through PPPs in Nebraska (Affordable Housing West case study).

The Center for Community Change is a national non-profit organization, with offices in Washington, D.C. and San Francisco, as well as staff in several other cities across the country. The heart of the Center's work is helping grassroots leaders build strong community-based organizations. Every year, the Center provides an array of hands-on assistance for more than 200 organizations that work in low-income communities, helping them to get started, develop effective boards, raise money, organize their communities, set objectives, devise strategies, win issue campaigns, build housing and develop a stronger local economy.

The Center also works to give low-income people and groups a voice on public policies that affect their communities. It has helped lead campaigns to increase lending in low-income and minority communities, preserve and improve public housing, increase community involvement in federal funding programs, make foundations and other funders more responsive to low-income communities and much more.

A special project of the Center for Community Change is the Housing Trust Fund Project which operates as a clearinghouse of information on housing trust funds throughout the country and provides technical assistance to organizations and agencies working to create or implement these funds. It has numerous publications and other materials available, including a quarterly newsletter that provides current information on the activities of housing trust funds.

Intermediary financing

The growth of intermediaries in the United States is to a large degree a function of the form of housing finance that has evolved. Initially the large national intermediaries, as well as a number of local ones (e.g., LIHF, the Family Housing Fund in Minneapolis-St Paul) were funded by foundation and philanthropic sources. Even prior to the enactment of the LIHTC in 1986, tax-based syndication was an important instrument to raise project financing and required a high level of specialized financial expertise, which intermediaries provided. Assembling tax-based financing also provided fee revenues for the intermediaries. With the creation of the LIHTC, these activities expanded as did fee revenues, enabling the intermediaries to sustain other activities such as technical support and advisory services to local non-profit organizations and CDCs trying to rehabilitate or build affordable housing.

With the creation of the LIHTC and the expansion of tax-credit-financed development (in association with other funding sources providing low rates or interest-free debt) the number of equity funds at the state and local levels has expanded, effectively broadening the network of financial and technical intermediaries.

Although the LIHTC was not a precedent to the creation of intermediaries, it has certainly been a factor in their expansion. To view this in another way, if the LIHTC were curtailed, it is likely that a number of intermediaries would no longer be able to sustain their operations. Some would continue to function as a number of intermediaries provide a wide range of services to CDCs and local communities, and receive funding for these human services from both government and foundations. As such, they are not solely dependent on LIHTC revenues to sustain their operation. However, if the LIHTC were curtailed, eliminating a major source of capital for project development, it is likely that the scope of activities would shift with a reduced level of housing production, and increased levels of human services (which foundations have demonstrated a strong capacity and willingness to support).

Final observations

This appendix has reviewed the key measures and mechanisms that have facilitated the development and gradual expansion of PPPs in affordable housing. Some of these were created specifically for the purpose of promoting partnerships (e.g., federal block grant programs with matching requirements) while others have evolved either independently (e.g., the LIHTC) or through efforts to fill voids in the financing framework (e.g., the state housing trust funds, the GSE goals). The supportive and catalytic roles of the foundations and, more recently, specialized intermediaries have been highlighted.

While a relatively comprehensive partnership framework now exists, it would be incorrect to portray this initially as a purposeful outcome of the public policy process. Rather, the apparent PPP system is an outgrowth of numerous, sometimes unrelated, efforts to find ways to address affordable housing need. The inability, or unwillingness, of any one party to address this issue alone drove a process that has cobbled together a wide range of resources and has inevitably drawn in a variety of actors from the public and private sector, with the initial leadership often coming from grass roots community organizations. More recent initiatives have, however, recognized and sought to reinforce and to expand partnership opportunities and activities (e.g., NCDI, HUD Section 8 Pension Program), suggesting that PPP approaches have become mainstream and may benefit from increasing and more formal levels of support.

Endnotes

1 The parameters of the CDBG have remained relatively constant since its inception. The principal revisions have been in tightened targeting. In 1983 it was clarified that at least 51 per cent of a grantee's program funds be used to benefit low- and moderate-income households. This percentage was raised to the current 70 per cent in 1990.

2 Participating jurisdictions must provide matching cash contributions of at least 25 per cent of HOME funds spent for tenant-based rental assistance, rehabilitation, acquisition and new construction. The *Housing and Community Development Act* of 1992 reduced the matching requirement by 50 per cent for jurisdictions that are in fiscal distress, and by 100 per cent for jurisdictions that are in severe fiscal distress.

3 Of the projects/units to which funds had been committed, 73,600 of the projects having 111,000 units had been completed and $3,054.6 million had been disbursed. The 1998 appropriation request of $1.3 billion for the HOME program is expected to provide tenant-based rental assistance to some 8,800 families. Additionally, an estimated 68,400 units are projected to be acquired, rehabilitated or constructed with the 1998 funding. Of those units, it is projected that approximately 58 per cent will involve rehabilitation, about 22 per cent will be from new construction, and 20 per cent will involve acquisition of standard units (Source: HUD Internet Homepage).

4 Section 167(k) of the Internal Revenue Code was ended with the *Tax Reform Act* of 1986. There is still a historic rehabilitation tax credit of 20 per cent and, for commercial and industrial developments (but not residences), a 10 per cent rehabilitation tax credit (Section 47).

5 Interview with Director of the Equity Fund of Nebraska. In this case, the investor's pay-in was spread over a six-year period. The amount investors are willing to pay is enhanced by the longer pay-in period as it provides better matching for the timing of investors' expenditure with the flow of tax credits. It also acts as a hedge against placing the entire investment into a project that runs into financial difficulty and is not completed.

6 The Center for Community Change is a national organization that helps broaden the capability of low-income and minority community organizations to solve critical problems. Through technical assistance, training and information, the Center addresses the unique needs and requests of each community, and works to improve specific local economic and social conditions.

7 Initially capitalized by government as government-sponsored enterprises (GSEs). Borrowers from the banks were required to purchase small amounts of stock and eventually the banks repurchased the government stock to become fully customer owned. (Diamond and Lea 1995).

8 The logic for the levy is that government, which bailed out many S&Ls in the 1980s, implicitly backs the FHLBs, and the AHP levy is a quid pro quo for this backing.

9 Fannie Mae is both a financial corporation and a foundation. The discussion here is limited to Fannie's role as a private financial corporation; its foundation role is discussed in the later section on foundations.

10 In 1996, HUD contributed $2 million while the other partners added $85 million to the fund. Other partners in 1996 were The Prudential, Rockefeller Foundation, J.P. Morgan and Co., John D. and Catherine T. MacArthur Foundation, Metropolitan Life Foundation, John S. and James L. Knight Foundation, the Pew Charitable Trusts, Sudna Foundation, the Annie E. Casey Foundation and the McKnight Foundation.

11 In this project, LIHF acted as the correspondent lender packaging a loan for a church pension fund.

12 Initially NHSA was capitalized only with grants from foundations. In 1978, the NHSA worked with the Ford Foundation to convince the Equitable Life Assurance Society to purchase $1 million of corporate notes. This process has been repeated many times since. In 1990, NHSA trustees (many of whom are leaders in the financial community) initiated a social compact with the financial services industry. This is a peer-to-peer consortium of over 220 financial services institutions with a combined asset base of over $600 billion (1990) which have pledged to support resources and below-market rate investment to the NHSA loan pools.

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U.S. Case Study Profiles

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Affordable Housing West
Lincoln, Nebraska

Overview

This was a model project developed by a community agency—the Indian Center––which had identified the need to have an equity fund established to facilitate affordable housing production. Two national intermediaries—the Center for Community Change and the Low Income Housing Fund LIHF) assisted in the creation of the Equity Fund of Nebraska and the Lincoln Community Development Partnership (LCDP).[1]

Affordable Housing West developed 30 three-bedroom homes (15 duplex buildings) providing rental housing at rents below 60 per cent of the area median income. The project was financed with a combination of mortgage financing, LIHTC equity and HOME grant. Eight of the units penetrate to very low income as a result of stacking Section 8 (shelter allowance) certificates.

Background context

Responding to the critical shortage of affordable housing and after going through a prolonged process to develop its first tax credit project in the late 1980s, a community-based multi-service agency, the Indian Center Inc (ICI), recognized the need to establish a source of funding and financing for affordable housing, and to increase the level of comfort of the local lending community with affordable housing loans.

The ICI asked the Center for Community Change, a national intermediary, to assist in working with leaders in the business and lending community in developing a statewide funding strategy. This resulted in the creation of two entities: the Lincoln Community Development Partnership (LCDP) and the Equity Fund of Nebraska (EFN). The LCDP is a consortium of banks, non-profit organizations and city staff that has provided debt financing to several non-profit housing developments as well as financing a micro-lending program. The Equity Fund of Nebraska is a state-created non-profit entity, established in 1993 to provide technical support and raise capital for affordable housing development. The EFN raises capital through the sale of tax credits and project depreciation allowances.

In order to access HOME funds, the City of Lincoln had to develop its Comprehensive Housing Affordability Strategy (CHAS—a standard requirement to access HOME funds from HUD). The city was committed through this strategy to ensure an equitable distribution of low income housing throughout the city, including the west neighbourhoods of the city where very little existed.

Initiator/sponsor

As an experienced housing provider, ICI took a lead role, becoming the general partner while a development consultant was retained to package the financing arrangements. The Indian Center provided both equity and a loan to the development.

Other partners/financial involvement

A number of local banks participated in both the construction and permanent financing under the auspices of the Lincoln Community Development Partnership (Norwest Bank, Lancaster Bank and Provident Bank).

The EFN became the limited partner and provided the single largest source of permanent funding in the form of tax-credit equity.

The Low Income Housing Fund (LIHF, a national intermediary) also provided underwriting and packaging for the permanent financing. The LIHF underwrote and continues to service the first mortgage to the Methodist Pension Fund. As a private church pension fund there is greater flexibility in investing than would be the case for public pension funds. (These typically require 100 per cent mortgage insurance; none was required here.)

HOME funds were accessed through the City of Lincoln.

Public funding programs accessed

HOME
LIHTC
HUD Section 8 certificates (to eight units)

Packaging

The development was facilitated by the Center for Community Change which played an important intermediary role in helping to establish the EFN and the LCDP, and set up the EFN first limited partnership, the Nebraska Affordable Housing Partnership 1993.

The Indian Center was not sufficiently well known to local lenders to be a bankable borrower. To address this issue, another intermediary, the LIHF, was also brought in. The LIHF's mission is to improve access to capital for organizations which are deemed less bankable. In this case, the LIHF acted as a correspondent lender for a church pension fund, the Methodist Pension Fund, and provided most of the permanent financing. While the IHF provided a total package of $700,000, this is split between a permanent fully amortized 30-year loan of $630,000 to the pension fund and a mini loan of $70,000 with a 14-year amortization and seven-year call to the LIHF.

Availability of development financing through the HOME program was a critical factor. The timing of these funds, early in the process provided capital for land acquisition.

The Indian Center has invested its own equity in the project and will recover this at some later date when it plans to sell the units to individuals (after the 15-year LIHTC compliance period).

With the commitment for permanent financing from the LIHF, the HOME loan and the initial tax credit equity, the comfort level of local lenders was enhanced. In this context, the local lenders were willing to provide construction financing as well as bridge financing to cover the gradual pay-in of the LIHTC equity.

The EFN set up the structure of its limited partnership fund to spread the contribution payments over a six-year period, more consistent with the generation of the tax credit benefit (annual tax credit over 10 years) than is the case in other equity funds (where pay-in is over a shorter period typically all flowing once a project is occupied and stabilized). The bridge loan was funded by a local lender at a below market rate of 5.5 per cent. With the pay-in of the LIHTC equity, the bridge financing loan from the private lender is fully repaid.

The only remaining privately held mortgages in the permanent financing was a small loan facilitated by the Affordable Housing Program operated by the Federal Home Loan Bank System. (This involves the subsidization of the interest rate by the FHLB, even though the loan is carried by the member bank.)

Impact on affordability

The 30 units are rented at $460/month, affordable to households at 50 per cent (24 households) or 60 per cent (six households) of median area family income ($36,000). Eight of the households are in receipt of Section 8 certificates which further relieves their rent burden.

Key features/innovations

After an earlier project in which the Indian Center struggled to secure individual investors in a tax syndication, this project demonstrates the benefit of institutionalizing an intermediary to assemble and allocate tax credit equity (the EFN). In addition, the EFN provides important services, most particularly asset management and ensuring compliance of the project to protect investors against tax recapture. The EFN has also developed expertise to provide development services and technical assistance to non-profit organizations.

Contacts

Jim Willett, Indian Center 402 438-5231
Jim Reiker, Equity Fund of Nebraska
402 346-2577

Construction costs and financing

Use of Funds	Total
Land	
Buildings and site improvements	
Soft costs	
Total	**$2,441,468**

Source of Funds	Terms	Total
HOME	7.5%	$290,844
Provident Bank	0% FHLB deferred	$135,485
Norwest Bank	8.75%	$700,000
Lancaster Bank	5.5% 6 years (bridge)	$1,165,139
General partner	Equity/deferred loan	$150,000
Total		**$2,441,468**

Permanent financing
(based on pre-construction estimates)

Source	Rate	Terms	Amount
HOME	7.5%	Deferred Loan, residual receipts	$290,844
General partner	N/A	Equity	$15,436
General partner	0%	Deferred loan	$134,564
Provident Bank	0%	Federal Home Loan Bank deferred loan	$135,485
LIHF/Methodist Pension	8.75%	30 years	$700,000
Equity Fund of Nebraska	N/A	LIHTC equity	$1,165,139
Total			**$2,441,468**

Willis Road Commons
Dover, Delaware

Overview

This development comprises 17 three-bedroom townhomes on a 0.57 hectare (1.4 acre) site in an established and stable neighbourhood, close to schools. The target group is working poor families, and two units are fully accessible. The project was developed by the public housing authority through a subsidiary created for the purpose of utilizing LIHTC equity financing. Total development costs averaging $69,136 per unit were financed with a combination of the LIHTC equity, state HOME funds and financing through a consortium of 33 Delaware banks, under the auspices of the Delaware Community Investment Corporation.

Background context

The project was developed by Willis Road Housing Inc, an affiliate of the Dover Housing Authority (DHA) created in 1994 for the purpose of developing Low Income Housing Tax Credit projects in Kent County. The DHA has been involved in construction of 22 new housing units, acquisition and rehabilitation of 20 units and rehabilitation of 121 existing public housing units.

This was one of the first projects developed with assistance by the Delaware Community Investment Corporation (DCIC), established in 1994 by a consortium of 33 Delaware banks, motivated largely as a way to meet the community reinvestment requirements of the CRA. The DCIC operates both a LIHTC equity fund and a pooled loan fund. Participating lenders have capitalized both the equity fund and loan pool, and the benefits are prorated.

The Enterprise Social Investment Corporation, (ESIC) participated as a co-partner providing technical expertise, accounting and asset management to assist the DCIC in establishing its first equity fund.

Initiator/sponsor

The project was initiated by the public housing authority through the Willis Road Housing, Limited Partnership. Willis Road Development Inc. acted as the general partner.

Other partners/financial involvement

HOME funds were provided through the Delaware State Housing Authority (DSHA). These funds provided the bulk (87 per cent) of the construction financing with part of the HOME funds also remaining as part of the permanent financing (one-third).

A single limited partner was represented by the Delaware Equity Fund, a fund created in 1994 by the DCIC. The Equity Fund provided equity in the amount of $503,000 (43 per cent of total development costs) through tax credit investments. Initial equity contributions (totalling some $150,000) were used to finance the remaining construction costs (augmenting the HOME funds). All equity was paid in after a six-month stabilization period, following completion.

The DCIC also provided permanent financing with a mortgage loan in the amount of $387,000.

Public funding programs accessed

LIHTC
HOME Funds (from HUD, allocated through the state housing authority)

Packaging

Three separate funding sources were utilized although two actors were common in all of them. The Delaware State Housing Finance Agency was responsible for the provision of a loan using HOME funds and also allocated the tax credit to the DCIC equity fund. The DCIC was instrumental in providing both the LIHTC equity investment and part of the permanent financing.

The DSHA established the loan conditions and undertook the layering review to ensure that the HOME funds (flowing through the DSHA) were required to achieve the target rents and ensure project viability. Because HOME funds were accessed, the tax credit the investors received was only four per cent rather than nine per cent available when no other federal subsidy is accessed.

The permanent loan from the DCIC was written at a below market rate of eight per cent and amortized over a 30-year period with a 20-year term. It is expected that the project will refinance this loan at the end of the 20-year term.

The lenders invested in the equity fund will generate a minimum 13 per cent internal rate of return on their investment based on the soft cost depreciation loss, taken up front and the 10-year annual tax credit.

The LIHTC equity (totalling $503,000 was paid in four installments: 30 per cent at construction closing, 30 per cent at completion, 30 per cent after a six-month rent stabilization period and the final 10 per cent developer's fee was paid six months after break-even rents were achieved).

The LIHTC compliance period is the standard 15 years, but the DSHA commitment dictates that the project is to remain low income for 20 years or until the HOME second mortgage loan is paid in full, whichever is longer.

Impact on affordability

Target population is families whose incomes do not exceed 60 per cent of median income. Forty per cent of units rented to families whose incomes do not exceed 50 per cent of median income. Two of the ground floor units will be fully handicap adaptable, and all units will be on accessible routes.

Current monthly rent for three-bedroom units:

- seven units at $488 less $131 utility allowance = $357/month; and
- 10 units at $586 less $131 utility allowance = $455/month.

The working poor households assisted by the project are working toward establishing a good track record as tenants and ultimately qualifying to become homeowners. These households earn too little to afford suitable housing, but too much to qualify for income and housing subsidies.

Key features/innovations

This project illustrates, the critical role of the Community Reinvestment Act in motivating the establishment of the Delaware Community Investment Corporation, the role of the LIHTC as a stimulus for establishing an equity fund and the supportive role of ESIC in helping to establish this equity fund, and developing the local capacity to expand on this in the establishment of subsequent equity funds.

Contacts

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Delaware State Housing Authority, 16 The Green, P.O. Box 1401, Dover, DE 19903,
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Doris Schnider, Delaware Community Investment Corporation, Tel: 302 655-1420,
Fax: 302 655-1419

Construction costs and financing

Use of Funds	Total
Land	$110,500
Buildings and site improvements	$620,000
Soft costs	$445,317
Total	**$1,175,317**

Development financing

Source of Funds	Terms	Total
HOME Funds	1% , 14 months	$1,024,256
Tax credits (initial 30% contribution)	Equity	$151,061
Total		**$1,175,317**

Permanent financing
(based on pre-construction estimates)

Source	Rate	Terms	Amount
Cash equity from tax credits	Equity		$503,536
DCIC	8%	First mortgage (20-year term amortized over 30 years	$284,000
HOME second mortgage	3%	30 years, payments deferred until sufficient cash flow	$387,781

Notes:
Equity contribution of 55 cents on the dollar of total tax credits ($91,552 annual tax credit x 10 years) or $503,053.
HOME mortgage interest and principal payments deferred until sufficient funds are available through cash flow on the project and after a two per cent cash distribution to investors if required by limited partner.
DCIC fee based on one per cent of mortgage amount requested plus $500.
ESIC fee of four per cent to provide technical assistance in establishing equity fund.
Developer's fee of seven per cent based on TDC less land and before developer's fees added in (develop/general partner is a non-profit organization).

Wylie Erin Rental Development Pittsburgh, Pennsylvania

Overview

The project was developed in a partnership that includes a foundation that provided grants for operating expenses and development fees to the non-profit sponsor; the city redevelopment agency that provided loans and grants from various funds; and a fund from a banking regulator. This project provides 24 rental apartment units for households with 60 per cent or less of the Pittsburgh median income adjusted for size of household. The developer Hill Community Development Corporation, is a non-profit corporation established by a neighbourhood community group for development purposes.

Background context

The Hill CDC, created in 1984 operates in a largely African-American low-income neighbourhood adjacent to Pittsburgh's central business district largely developed over the 1890 to 1910 period. The neighbourhood covers about a five square kilometre (two square mile) area. Revitalization efforts have been going for more than 35 years. Most of the recent residential efforts involved redevelopment of very distressed sites. The Wylie Erin site contained two commercial-use buildings, one with a nuisance use and the other long vacant.

Initiator/sponsor

The project was initiated by the Hill CDC to assist in the revitalization of this neighbourhood.

Partners/financial involvement

Pittsburgh Partnership for Neighborhood Development (PPND) provided a grant for the portions of the non-profit developer's administrative costs and development fees. PPND, formed in 1989, engages public, private, and non-profit organizations in formulating community development strategies for Pittsburgh. It has provided $5 million in operating and project support to community development corporations. It has received funds from 27 organizations. They include the City of Pittsburgh, several foundations, commercial banks, thrifts, industrial firms, private development companies and a variety of other organizations and individuals.

Urban Redevelopment Authority of Pittsburgh (URAP) provided technical assistance and construction financing and permanent financing.

Public funding programs accessed

Federal Low Income Housing Tax Credit. The conduit in this case was the ESIC, the equity investment subsidiary of the Enterprise Foundation, which helps develop investment funds for project development.

City redevelopment agency construction loan programs. The loan from the Rental Housing Development and Improvement Program (RHDIP) and the Community Development Investment Fund (CDIF) comes from intermingled local, state and federal programs. Some of the sources include the CDBG, State of Pennsylvania allocations from a variety of programs, City of Pittsburgh development allocations and loan repayments from past loans.

State housing finance agency—PennHOMES. PennHOMES is a soft second mortgage loan program for low-income rental housing development and rehabilitation projects.

Packaging

The redevelopment agency (URAP—including its local housing finance agency arm) has developed a broad range of financing assistance programs such as RHDIP and CDIF to assist community groups to develop or rehabilitate residential units. As noted above, most of the capital in these programs is derived from state and federal sources with no cost to the city. Consequently, it is possible to offer very low interest and forgivable loans or grants to help develop projects.

The Pittsburgh area also has a consortium of local foundations (PPND) that has provided grants for operations for non-profit community-based development groups. Serving the target population would still not have been feasible without the Low Income Housing Tax Credit. This source alone contributed just over 60 per cent of the cost of the capital funds, at no cost to the project.

Impact on affordability

The project will provide 24 rental two bedroom units affordable to low-income tenants. Fifty per cent of the units serve households with incomes at or below 50 per cent of the area median income. The remaining units serve households at or below 60 per cent of the area median. Twelve of the units will be rented for $324 per month and the other 12 at $361.

Key features/innovations

The broad range of loan and grant programs developed by the local redevelopment agency along with its technical assistance help make the community-based non-profit development viable while serving a low-income target group.

The distressed nature of the neighbourhood is the stimulus for the range of grant and low-interest/forgivable loans that were used to develop this project.

Construction costs and financing

Costs	Total	Per Unit
Acquisition/land	$56,181	$2,341
Hard costs	$2,362,604	$98,442
Soft costs	$186,723	$7,780
Construction interest	$39,918	$1,663
Other[1]	$515,245	$21,469
Total	**$3,160,671**	**$131,695**

Construction financing

Source of Funds	Rate	Terms	Total
LIHTC[2]			$1,946,278
RHDIP[3] loan			$391,964
CDIF[4] loan			$150,000
PPND[5]			$23,981
PennHOMES loan			$400,000
Reinvested developer's fee[6]			$176,448
FHLB[7]			$72,000
Total			**$3,160,671**

Permanent financing (based on pre-construction estimates)

Source of Funds	Fees	Rate	Total	Per Unit
LIHTC[2]		N/A	$1,946,278	$81,095
RHDIP[3] loan	1.0%	6.55%	$391,964	$16,332
CDIF[4] loan	1.0%	1.00%	$150,000	$6,250
PPND[5] grant		N/A	$23,981	$999
PennHOMES loan	1.0%		$400,000	$16,667
Reinvested developer's fee[6]		N/A	$176,448	$7,352
FHLB[7] grant		N/A	$72,000	$3,000
Total			**$3,160,671**	**$131,695**

Notes:

1 Syndication/tax credit costs.
2 Low Income Housing Tax Credit.
3 Rental Housing Development and Improvement Program loan—Urban Redevelopment Authority of Pittsburgh.
4 Community Development Investment Fund—Urban Redevelopment Authority of Pittsburgh.
5 Pittsburgh Partnership for Neighborhood Development.
6 Developer's fee is allowed in LIHTC and non-profit organizations usually reinvest it as a contribution to equity.
7 Federal Home Loan Bank.

El Azteca Housing Development
Laredo, Texas

Overview

El Azteca is a new 50-unit apartment building developed under the initial pilot demonstration for what is now the National Partnership for Community Investment, an alliance between the AFL-CIO and HUD. The development involved Fannie Mae in securitizing a mortgage for purchase by the AFL-CIO pension fund's Housing Investment Trust.

This development illustrates the role of the secondary mortgage market in facilitating private pension funds in financing affordable housing. The project also benefited from the Low Income Housing Tax Credit, HOME funds and a special set aside of HUD Section 8 project-based assistance that ensures affordability to very low-income households.

Background context

The project was initiated by a community development non-profit organization—El Azteca Economic Development and Preservation Corporation (EAEDPC) in a successful proposal to the AFL-CIO HUD demonstration program. Under this demonstration program, established by special legislation in 1993, HUD appropriated $200 million of project-based Section 8 subsidies, for affordable housing projects involving pension fund investments. Through a competitive process, HUD selected a number of pension funds to participate in the demonstration, including the AFL-CIO Housing Investment Trust (HIT).

HIT is a division of the overall AFL-CIO Investment Trust which pools funds from some 350 pension funds. HIT is used to finance union-built housing through this type of secondary market purchase. Under the partnership, the AFL-CIO Housing Investment Trust agreed to provide a forward commitment with a fixed interest rate based on current treasuries for a first mortgage. A Fannie Mae delegated underwriting and servicing lender originates the loan, following Fannie Mae underwriting criteria so that Fannie can purchase and securitize the loan. HIT then purchases the mortgage-backed security.

The HUD-AFL-CIO partnership has financed the creation of almost 2,200 affordable housing units in 19 projects. HIT has invested $109 million toward aggregate development costs of just over $240 million.

With limited experience in rehabilitation and utility grants, the EAEDPC retained an experienced consultant to help, and purchased the site using funds raised through neighbourhood fund-raising in previous years. As a condition of the AFL-CIO participation, the project had to be built with 100 per cent union labour and a unionized contractor was selected for the project. Construction commenced in April 1996 and was completed in December.

Initiator/sponsor

The project was initiated by a non-profit community development organization active in the community since 1982. In the late 1980s, it began providing small grants for housing rehabilitation, and utility and rental assistance. This was its first housing development. In order to access tax credit equity, the community group created the Riverfront Limited Partnership which was formalized as the developer and general partner.

Other partners/financial involvement

Construction financing was provided, in part, by the Bank of America federal savings bank. This was written at prime plus one per cent over a nine-month term. LIHTC equity covered the remainder of the construction costs.

In order to facilitate the pension fund investment as part of the permanent financing, a delegated underwriting and servicing mortgage banker, PW Funding Inc. originated and underwrote the loan to Fannie Mae's requirements. After the project achieved a stabilized 90 per cent occupancy for 90 days, PW Funding advanced the permanent loan to pay out the construction loan. The loan terms and conditions for origination and securitization in a Fannie Mae MBS were pre-negotiated between the EAEDPC, PW Funding, Fannie Mae and the AFL-CIO. The loan rate was negotiated at 8.6 per cent with a 15-year term.

Funding programs accessed

Low Income Housing Tax Credits
HOME
HUD Section 8 project subsidies
The local county provided a 20-year property tax abatement

Packaging

The LIHTC: The Texas Housing Finance Corporation, a non-profit state equity fund created in 1991 facilitated the tax credit equity investment in the project through its second equity pool (Texas Housing Opportunity Program Fund II), comprising investments from three financial institutions as well as Freddie Mac and Fannie Mae. The credits were paid in three installments: the first at construction closing, providing a portion of the construction financing, and the remaining two installments at completion of construction and at lease-up.

A second mortgage was obtained from another state fund—the Border Housing Initiative Fund—essentially a set aside of HOME funds used to address poor housing conditions along the Texas–Mexico border. These funds were committed at three per cent with a 15-year term.

Additional HOME funds were provided through the city's 1992 and 1994 allocations. Committed for a 20-year term with zero per cent interest, this loan is forgivable if the project continues to provide affordable housing during the term. This was written as a soft third mortgage.

When HOME funds are provided as a loan rather than a direct grant they do not reduce the eligible base of the project for the purpose of calculating the tax credit value.

A special allocation of Section 8 project-based assistance was provided to ensure affordability to very low-income households. Initially only half the units were identified to receive this assistance; however this was increased to 100 per cent of the units to reflect the typically low rents and lack of decent housing in the area.

Impact on affordability

The units are all rented to low- and very low-income households (below 50 per cent of area median) with the Section 8 subsidies ensuring that they do not pay more than 30 per cent of income. Even with the tax credit equity and HOME funds, it was not possible to reduce costs to an affordable level without the special set aside allocation of Section 8 rental assistance.

Key features/innovations

This project illustrates the role of the secondary markets in the United States as a mechanism to reduce risk and attract investment. The delegated underwriting and servicing lender and Fannie Mae share the risk, while the pension fund investment is protected by the mortgage-backed security secured by Fannie Mae. The pension fund did, however, absorb the full interest risk by providing a locked in forward commitment on the permanent loan In turn, Fannie Mae and the lender minimize their risk by requiring 90 per cent stabilized occupancy before funding the loan.

The significant level of subordinated public sector financing (via HOME) and the equity provided through the Low Income Housing Tax Credit investment act to reduce the loan to value ratio, effectively to 50 per cent on the first mortgage.

Contact

Adapted from National Council of State Housing Agencies 1997.

Construction costs and financing	
Use of Funds	**Total**
Land	$110,000
Buildings and site improvements	$2,600,000
Soft costs	$800,000
Total	**$3,510,500**

Permanent financing
(based on pre-construction estimates)

Source	**Rate**	**Terms**	**Amount**
Texas Housing Opportunity Fund (LIHTC)	Equity	N/A	$1,640,000
Sponsor	Cash		$53,000
PW Funding/Fannie Mae AFL—CIO HIT	8.6%	First mortgage; 15 years	$1,110,000
TX Border Initiative (State HOME)	3%	Second mortgage; 15 years	$225,000
City of Laredo (HOME)	0%	Third mortgage 20 years, forgivable	$367,500
Sponsor loan/developer fee	9%	Subject to cash flow	$175,000

CPC Small Building Loan Program Port Jervis, New York

Overview

This project involved a mixed commercial-residential rehabilitation, and was initiated by a private entrepreneur. A small building loan program, operated by a statewide New York non-profit lender consortium provided a conduit for private financing while public funding was provided through the city allocations of CDBG and HOME funds.

The housing is privately owned and operated but a covenant is placed on the property as a condition of the HOME funds restricting rents and incomes of tenants.

Background context

The property was in a poor state of repair when the former owner was foreclosed. An established restaurant/tavern operated in part of the commercial ground floor space and the restaurant owner, already experienced in some real estate development involving mixed residential—commercial with affordable rental, purchased the property.

The city of Port Jervis was interested in seeing the historic building rehabilitated as part of an overall effort to revitalize the downtown area.

The Community Preservation Corporation (CPC) is a non-profit mortgage-lending consortium of commercial banks, savings institutions and insurance companies established in the City of New York in 1974 to finance affordable housing. It was subsequently expanded to a statewide organization. The CPC functions as an intermediary in originating and servicing both construction loans and placing permanent financing using a revolving line of credit funded by member banks.

To facilitate the secondary market packaging of loans originated by the CPC, the state has passed special legislation to enable the State of New York Mortgage Agency (SONYMA) to provide mortgage insurance on 100 per cent of the mortgage. This, in turn, permits state pension funds to purchase these loans for their portfolios.

In a recent initiative, the CPC has developed a new lending program specifically targeted to provide rehabilitation financing to owner/occupants of buildings with 20 or fewer units. The Small Building Loan Program provides technical support and advice, offers faster and simplified loan processing and offers a construction loan at prime plus one (compared to prime plus two for more typical CPC construction financing.

Initiator/sponsor

The project was initiated by a private entrepreneur who owns and operates a number of other mixed-used small developments. He operates the property on a for-profit basis but is able to maintain the affordable rents in compliance with HOME regulations as a result of the public funding involved. He provided $293,000 of cash equity for the acquisition/rehabilitation.

Other partners/financial involvement

The CPC provided a construction loan for a 12-month period at prime plus one per cent. CPC also placed the permanent funding with the New York State Common Retirement Fund. (CPC continues to service the loan.) This is a fixed-rate loan with a 30-year term.
Orange County, using its allocation HOME funds from HUD
City of Port Jervis, using its allocation CDBG funds from HUD

Public funding programs accessed

Small City CDBG allocation
Orange County HOME allocation

Packaging

In Orange County, the City of Port Jervis can combine its annual competition for HOME fund allocations with CPC financing in a single one-stage competition. The city also had some CDBG funds available which it was able to contribute to the project.

After the owner's equity, CPC required the county HOME funds and city CDBG funds to be used first, prior to drawing on the CPC construction loan. Because the pubic subsidies were interest free, this minimized interest carrying charges during rehabilitation. Using the public funds first also mitigates risk for the private lender consortium.

The HOME loan is a soft second mortgage. It is registered as a co-second mortgage but carries no interest and is fully forgivable after 15 years if the property continues to comply with the covenant restricting rents and incomes.

The loan provided with CDBG funds is also interest free and is repayable over a 20-year term.

Impact on affordability

After renovation, the property will have 10 apartment units renting at $375 to $425 per month, affordable to households below 80 per cent of area median income.

Key features/innovations

Initiated by a private entrepreneur with significant private-sector involvement. A lender consortium, the CPC was a significant participant, using a small property loan fund, providing construction financing and originating permanent financing for resale to a pension fund investor.

Public funds total $325,000 and represent only 35 per cent of total cost/financing. However, public funds were critical to the participation of the private lender, in reducing the loan-to-value ratio and risk.

Contacts

Source: National Council of State Housing Agencies 1997.
Tom McGrath, CPC 914 747-2570

Construction costs and financing

Use of Funds	Total
Acquisition	$250,000
Buildings and site improvements	$598,000
Soft costs and fees	$69,855
Total	**$918,055**

Construction financing

Source of Funds	Terms	Total
CPC	12 months; prime +1%	$300,000
County HOME funds	15 years; 0%	$150,000
City CBDG	20 years; 0%	$175,000
Owner equity	N/A	$293,000

Permanent financing

Source	Rate	Terms	Amount
NY State Common Retirement Fund (CPC serviced)	9.75%	30 years fixed	$300,000
County HOME funds	0%	15 years, forgivable	$150,000
City CBDG	0%	20 years	$175,000
Owner equity			$293,000

Notes:
HOME mortgage subject to a covenant restricting rents and income for 15-year period.
First mortgage (N.Y. State Common Retirement Fund) insured to 100 per cent by the State of New York Mortgage Agency, a prerequisite to purchase of loan as a pension fund investment.

Harlem Distressed Properties Initiative New York, New York

Overview

This project revitalized three distressed and abandoned apartment properties providing 61 units of housing and 557 square metres (6,000 square feet) of commercial space. The partnership included a private lender (Chemical Bank) which donated the property and provided both development and permanent financing; the City of New York Housing and Preservation Department; and the active involvement of a consortium of community organizations that created an organization to bring distressed properties into community ownership. Various HUD sources were also accessed via the city (i.e., allocations of HOME and Section 8 rental certificates, although this commitment was rescinded when new Section 8 commitments were cancelled in 1995.

Background context

The Chemical Bank acquired the three abandoned properties through default and foreclosure. The properties were concurrently in tax arrears. Due to both the tax arrears and the properties' marginal condition, they had little value. Consequently, the bank was willing to write off the existing (foreclosed) loans. The bank then worked in partnership with a consortium of community-based organizations that in 1991 had created an organization to assist with tenant takeover and rehabilitation of distressed properties—Community Assisted Tenant Controlled Housing (CATCH). CATCH established a non-profit mutual housing association— Housing Development Fund Company (HDFC) to own and manage the units as low-income housing. The board of the HDFC comprises tenants and community leaders.

The city was motivated to revitalize the property to improve the neighbourhood and to regenerate the tax base (although future property taxes are paid under a tax abatement program).

Initiator/sponsor/impetus

The project was initiated by the Chemical Bank and by a coalition of community organizations. The bank was motivated by the repossession of a non-producing property while the community groups, under the umbrella of CATCH, had identified a need to revitalize individual properties as part of a larger-scale effort to improve a severely distressed neighbourhood.

Other partners/financial involvement:

- Chemical Bank (now merged with Chase) provided repossessed properties, paid foreclosure costs incurred in ongoing city action for property tax foreclosure, provided rehabilitation financing and originated the permanent financing.
- CATCH community organization worked with tenants to establish the Housing Development Fund Company.
- City of New York Housing and Preservation Department (HPD) absorbed a portion of the back taxes, used an existing housing preservation Participation Loan Fund (low-interest loan) to assist in financing the acquisition; worked with lender to clear title.
- City of New York HPD also provided an allocation of HOME funds (from HUD).
- State of New York provided a property tax abatement (effectively eliminating property taxes for 20 years).

Public funding programs accessed

City loan program (Housing and Preservation Department Participation Loan Program uses funds levied through state-issued mortgage revenue bonds in combination with the city entitlement of HOME funds)
City tax abatement program
HUD HOME entitlement funds

Packaging

The key to the partnership was the initial willingness of the lender to work with community groups and the city. The lender knew the property had very little value and actively worked to return it to a viable position and thereby re-establish its lending value.

HOME funds were the single largest part (55 per cent) providing $2 million of the financing package which totalled $3.6 million ($59,632 per unit) and significantly enhanced the loan security and underwriting of the private financing.

This provided the security to originate a new loan with an expectation to sell this into the secondary mortgage market. It was initially planned to sell this loan to the New York City Employees Retirement System (NYCERS) to provide permanent financing. To be an eligible pension fund investment, the mortgage loan must be 100 per cent insured. SONYMA typically provides mortgage insurance to facilitate these investments, on 100 per cent of loan. Although the rehabilitation was completed in 1995, the construction loan has not yet been closed out. Chase-Chemical continues to hold this as a construction loan (at market rate). Efforts are currently under way to fund the permanent loan with a bond issue through the city's bonding agency.

Impact on affordability

The initiative resulted in the revitalization of 61 units with rents ranging from $345 (one bedroom) to $725 (three bedrooms). The use of HOME funds requires the units to be targeted to low-income households (below 80 per cent of area median income).

Initially it was expected that Section 8 rental certificates would provide subsidies to ensure that rents do not exceed 30 per cent of income. This would have enabled the project to penetrate to very low-income levels. Although the city (which administers the Section 8 certificate program with HUD funding) initially committed Section 8 assistance, the subsequent curtailment of funding for new certificates has negated this commitment. To compensate, the project is renting vacant units at full market rent with the expectation of generating an internal subsidy pool to cross-subsidize existing very low-income tenants.

Key features/innovations

Combines the leverage of public investment with the community organizing skills of a community non-profit organization to create a new lending opportunity and recover a bad loan.

No tax credit equity was involved, however HOME funds provided significant equity and loan security. This is a case where a private-sector partner played an active role (versus the more passive involvement in LIHTC). The private lender was motivated by a non-producing asset and saw an opportunity to remedy this situation, generating fee revenue from construction financing business and from mortgage origination and placement of permanent financing.

Although this has not yet, and may not, materialize, the initial plan illustrates the role of mortgage insurance and the secondary mortgage market. The state and city have both created mortgage insurance agencies to provide 100 per cent mortgage insurance that is a prerequisite to public pension funds purchasing these mortgages. In turn, state-sponsored pension funds are encouraged to participate in this type of investment. The private lenders are also involved in originating the loans which are then sold to the pension funds.

The non-profit sector through CATCH provided an interface with the low-income community and assisted in creating a legal entity (HDFC) that could take ownership of the revitalized property and ensure its ongoing operation.

The vulnerability of these projects to funding changes is apparent in the cancellation of the Section 8 rent subsidies. As a consequence, to maintain viability and generate some internal subsidy, a number of units that might have provided affordable rents for very low-income households are being rented a market levels, out of reach of the most needy.

Project costs and financing

Use of Funds	Total	Per Unit
Acquisition/land cost[1]	$711,157	$11,658
Hard costs	$2,231,496	$36,582
Soft cost	$512,221	$8,397
Construction interest		
Other (equity)[2]	$71,325	$1,169
Total	**$3,637,547**	**$59,632**

Notes:
1 Acquisition costs include payment of taxes arrears, repair liens, city fees and foreclosure costs already incurred.
2 Group equity provided a contingency and building reserve.

Development financing

Source	Rate	Terms	Amount
Private lender	Prime +1.25%	18 mos. (15 mos. renovation 3 mos. to stabilize and convert to permanent[1]	$884,056
City HPD capital fund	1.0%[2]	19-24 years depending on property	$630,817
City HOME fund	0%[2]		
Concurrent terms, forgivable at maturity	$2,021,349		
Group equity	Cash		$101,325
Total			**$3,637,547**

Notes:
1. Construction loan still open; conversion to permanent financing still pending.
2. Excludes a 0.25 per cent bank servicing fee.

Enterprise Nehemiah Development Corporation
Baltimore, Maryland

Overview

A new partnership, the Enterprise Nehemiah Development Corporation, was created in 1987 specifically to facilitate this initiative. This partnership assembled some $21 million in financing from a variety of sources including city, state and federal governments as well as private and philanthropic sources to revitalize a severely distressed neighbourhood in Baltimore. By creating new homeownership opportunities the initiative helped to stabilize the neighbourhood, created a strong sense of community and has stimulated the regeneration of the local business community. In total, 283 new three-bedroom townhomes were build and another 17 rehabilitated during 1990-91. The homes were sold to existing residents of the area at prices affordable to low- and very low-income households.

Background context

Focussed on two troubled neighbourhoods in Baltimore, the partnership began in the mid-1980s when 45 religious institutions and three unions formed a community organization to help low-income working poor and middle-income residents reclaim what had become a troubled and deteriorating neighbourhood.

Stabilizing the neighbourhood through homeownership opportunities was a key element of the group's efforts. The two neighbourhoods targeted by the initiative were characterized by very low-income households. The median income of the two neighbourhoods was 44 per cent and 37 per cent below Baltimore's median $18,000 (1990). Demolition, abandonment and fire contributed to the physical decline of the areas through the 1980s. By 1990, 10 per cent of the remaining properties were vacant. In 1980, existing properties were valued at only 36 per cent of the city average assessment and were selling below their assessed values. With declining values and increasing levels of crime, especially drug transactions, the area was unable to attract any new residential or commercial investment.

Initiator/sponsor

BUILD (Baltimorians United in Leadership Development) was active as a community and effectively lobbied city politicians, culminating in a financial commitment following 1986 city elections. With the creation of the Nehemiah Housing Opportunity Program in 1987, BUILD formalized a partnership with the Enterprise Foundation to create the Enterprise Nehemiah Development Corporation (ENDC) which became the primary sponsor of the revitalization effort. The ENDC set four goals:

- increase residential stability through homeownership opportunities;
- expand commercial development;
- eliminate vacant land; and
- deepen community involvement.

Other partners/financial involvement

ENDC worked closely with a number of partners to redevelop the area.

The City of Baltimore sold 17 repossessed existing properties, as well as a parcel of vacant land (for 283 homes) for $1 each.

Seven local religious institutions provided $2.2 million as a construction loan (interest free for seven years).

The State of Maryland issued mortgage revenue bonds to raise $11.2 million as a pool of first mortgage funds, subsequently used to fund low-interest homebuyer mortgages.

HUD provided a grant of $4.2 million to finance second mortgages up to $15,000 per unit.

The City of Baltimore provided $12 million which covered various demolition, public improvements and infrastructure costs as well as contributing some capital for homebuyers' forgivable third mortgages and closing costs. The city also waived municipal fees and provided some relaxation on codes for rehabilitated units.

The Enterprise Foundation provided technical assistance in planning the redevelopment and the subsequent mortgage financing. An Enterprise subsidiary, the Enterprise Construction Corporation, also managed the new construction.

A private utility company donated the replacement and extension of conduits to new homes.

The State of Maryland tax abatement program will provide homebuyers with a tax abatement totalling $2.3 million over 30 years.

Funding programs accessed

HUD Nehemiah
HUD CDBG funds were used as part of the city's $12 million contribution
State mortgage revenue bonds
State Homeowner Tax Credit Program (tax abatements)

Packaging

The initial commitment of $12 million from the city for neighbourhood revitalization, and the commitment of start-up and bridge financing from religious groups provided the initial impetus for the redevelopment. HUD's Nehemiah Housing Opportunities Program then provided an added financing source to seal the potential for the redevelopment. The ENDC then coordinated the construction process, and worked with city officials to develop a homebuyer selection process.

An independent realtor was contracted to do marketing and pre-screen applicants; however, community organizations and the churches that provided some of the construction financing were an effective way of identifying potential buyers.

With many area residents unemployed or underemployed, a key part of the revitalization effort involves neighbourhood-based job training, employment and entrepreneurial assistance. The Enterprise Foundation is working with a local group to provide a one-stop training center for area residents.

Impact on affordability

Benefiting from free land and a cost-effective modular construction, the finished homes were priced at $58,500 (financed with combination of MRB first mortgage of $37,500; $14,000 second from Nehemiah (HUD) and $6,250 from the city. The city also covers $4,000 in closing costs). The HUD Nehemiah-financed second mortgage is forgiven provided that the homeowner remains in the home and meets payments on the first mortgage. The city third mortgage is also interest free and non-amortizing but comes due if the home is sold. As long as the home is occupied as the principal residence and the owner does not default on the first mortgage, no principal or interest is due on the second and third mortgages.

With payments due on only the $37,500 first mortgage and the benefit of low-interest rates (varying from four to eight per cent depending on buyer's income), the units are affordable to households with incomes as low as $11,000.

Key features/innovations

Nehemiah Housing Opportunities Program funding is linked to neighbourhood revitalization and encourages local government to top up funding to increase low-income penetration.

Costs were minimized by selecting a single townhouse design, built with modular construction. This provided economies of scale, and the modular construction minimized the potential for vandalism during construction.

Housing is only one component of a broader revitalization strategy. The community is seeking designation of area as an enterprise zone by the state as a way to spur further commercial investment and employment.

Contacts

With information from U.S. HUD 1991.
Chickie Grayson, Vice President Enterprise Construction Corporation 410 427-8535
Lawrence Cager, Director Enterprise-Baltimore 410 244-1755

Homeownership financing

Source of Funds	Terms	Total	Per Unit
State of Maryland (MRB issue)	30 year fixed rate[1]	$11,250,000	$37,500
Nehemiah—HUD	0% forgivable	$4,200,000	$14,000
City of Baltimore[2]	0% repayable only when home sold	$1,875,000	$6,250
Buyer downpayments		$225,000	$750
Total		**$17,550,000**	**$58,500**

Notes:
1 Interest rate varies between four and eight per cent depending on buyer's income.
2 City also contributing $4,000 grant to closing costs as well as a significant expenditures on services and infrastructure.

Charlotte Mecklenburg Housing Partnership, Inc.
Charlotte, North Carolina

Overview

Charlotte Mecklenburg Housing Partnership, Inc. (CMHP) is a broad-based private non-profit housing and development corporation incorporated in 1988. The partnership was formed when the city and county assembled community leaders to study the lack of affordable housing. The partnership includes city and county government, with support from federal and state programs, and a range of financial institutions, developers, businesses and various community organizations. Its focus is on expanding and maintaining affordable housing and revitalizing and stabilizing low- and moderate-income neighbourhoods in the City of Charlotte and Mecklenburg County.

The CMHP operates a range of initiatives including assisted homeownership, a transitional ownership program for renters (PATHWAYS), and undertakes multi-family rental development (using tax-credit equity financing). The CMHP works in close collaboration with the city in delivering components of an overall housing and revitalization strategy. The partnership focus extends beyond housing to neighbourhood empowerment. By way of illustration, one element of the CMHP efforts is described here—the revitalization of the Genesis Park neighbourhood and the associated homeownership program.

Background context

Charlotte is a relatively prosperous city which experienced, and continues to experience, strong economic and population growth through the 1980s. Much of this growth has been directed to the suburbs and like many U.S. cities, the inner city has become depressed. Many inner city residents are minorities, unemployment or underemployment is high and poverty pervades the inner city area. Although urban renewal was halted and reoriented in the mid-1970s to preservation and code enforcement, some parts of the inner city remained characterized by substandard and inadequate housing. Vandalism, property damage and crime followed. Genesis Park was one of the most notorious neighbourhoods in the city, with prolific drug trafficking and violent crime making it one of the worst crime areas of the city. In reaction to these problems, the city and CMHP established a comprehensive strategy to turn the neighbourhood around.

An active community policing program was implemented. Housing was a central part of the revitalization effort focussing on first eliminating the anti-social drug dealing population by a program of property acquisition, (from absentee landlords) and homeownership conversion.

The area encompasses approximately 12 blocks and some 200 properties. Previously, most were rented and housed drug dealers and other undesirable individuals. Through CMHP and city intervention the area has been resurrected with proud homeowners displacing the former tenants through an acquisition and rehabilitation program.

Initiator/sponsor

The revitalization of the Genesis Park area was instigated by the community Outreach Missionary Church which convinced the city to take decisive action (using a community policing approach) and CMHP (though a housing strategy) to help revitalize the area.

Other partners/financial involvement

The City of Charlotte contributes capital funds both from its own revenues and from federal entitlement funds (primarily CDBG) to provide the working capital for the partnership to acquire and rehabilitate existing properties and to enable CMHP to fund second mortgages on the properties covering the first 10 to 30 per cent of the cost. Payment is deferred for 30 years but becomes repayable upon the retirement of the first mortgage.

The CMHP has secured a $17.5 million loan pool from local banks acting as a loan consortium. The consortium funds homeowner mortgages to buyers approved by CMHP. These loans are written at interest rates slightly below market for a 30-year term and cover the remaining 70 to 90 per cent of the cost. There is no mortgage insurance requirement.

Habitat for Humanity is also active in the neighbourhood and is able to facilitate access to lower-income households unable to qualify under the CMHP homeownership program. Habitat uses sweat equity and its revolving loan fund to lower the ownership payments. (Eleven homes have been developed by Habitat in the neighbourhood.)

The Fannie Mae Home Team Partnership is an initiative with 11 NBA teams to revitalize inner city neighbourhoods and provide homebuying information to aspiring homeowners through homebuying fairs and sponsorship advertising, (e.g., participate in work days and provide advertising during games). The Fannie Mae Foundation has also made grant contributions to the CMHP. Fannie Mae's Home Team Partnership contributed to six houses in Genesis Park.

Funding programs accessed

City capital funds
City CBDG entitlement funds
(In the case of multi-family rental developments—none in Genesis Park—the CMHP accesses LIHTC and City HOME.)

Packaging

The CMHP purchases the existing homes using federal and city funds (largely CDBG). Most of the existing homes were duplexes and these are converted to single dwellings. The post-rehabilitation sale price generally ranges from $52,000 to $70,000 with the partnership's soft second reducing the repayable loan to about 80 per cent of this price.

The CMHP coordinates the acquisition and rehabilitation work. Rehabilitation is undertaken by contractors, not through sweat equity (except in the Habitat Homes).

The CMHP underwrites the loans on behalf of the loan consortium. Homebuyers must qualify under the CMHP Loan Consortium Underwriting Guidelines—minimum $1,000 cash ($500 to down payment; $500 to closing costs); verifiable employment income up to 115 per cent of area median (the CMHP has targeted 75 per cent of the homes to households with incomes below 80 per cent of median). The combination of homeownership, and the underwriting requirement of a steady employment income has been an important factor in the transition and stabilization of the neighbourhood.

Lower income households, those with poor credit records or high debt are referred to other programs or remain in counselling until they establish a credit history or reduce their debt and are able to make the step to homeownership.

Impact on affordability

The homes are sold to households at or below 115 per cent of area median income, although as a policy the CMHP is limiting the number with incomes above 80 per cent of median to no more than one-quarter of buyers. Approximately 10 per cent of houses were sold to families earning more than 80 per cent of median area income.

Key features/innovations

After five years, Genesis Park has been transformed. The crime rate has been significantly reduced and the appearance of the neighbourhood enhanced. The CMHP has acquired 93 properties and rehabilitated 86, while Habitat for Humanity has added a further 11. Approximately 40 existing homeowners or renters in the area have remained and now enjoy a far higher quality of life.

The neighbourhood revitalization is just one element of a comprehensive approach in which the Charlotte Mecklenburg Housing Partnership is involved.

Contact

Patrica Garrett, President, Charlotte Mecklenburg Housing Partnership 704 342-0933

Construction costs and financing

Total cost of Genesis Park revitalization $7.6 million. Source of funds: CBDG, Innovative, Fannie Mae, loan pool.

Jackson Metro Housing Partnership Jackson, Missisippi

Overview

The Jackson Metro Housing Partnership, Inc. is a private, non-profit organization created in 1992 for the purpose of helping low-income Jacksonians gain safe, decent and affordable housing. Its primary focus is on assisted homeownership for low- and moderate-income households, using soft second-mortgage financing. Between August 1993 and March 1996, the Partnership had closed 147 second mortgage loans. It has directly lent $1.7 million and levered $5.3 million in home purchase financing from private lenders. Most of these loans have been made in older, suburban-like neighbourhoods on the south and west sides of the city, areas with some stability, modest housing prices, and high or increasing proportions of African American residents. Home prices in the city are relatively affordable; existing homes are often available for $40,000 to $50,000.

The partnership was created at the instigation of the city, with the assistance of the Enterprise Foundation. Board members primarily represent lending institutions, utility companies, businesses and neighbourhood interests.

Background context

A 1990 survey found that 8,000 dwellings in Jackson were substandard (about 12 per cent of the housing stock), with that number increasing by about 400 a year. In neighbourhoods with lower property values, a considerable number of single-family homes were being bought by investor—owners. Ongoing neighbourhood deterioration prompted the city to undertake a strategic planning process facilitated in 1991 by the Enterprise Foundation. Several planning sessions involved local government officials, lenders, community advocates and representatives of non-profit housing organizations. The outcome was a preliminary plan to form the partnership. Enterprise also provided start-up technical assistance that was funded by the City of Jackson and the U.S. Department of Housing and Urban Development.

The housing programs of the city, the partnership, and other non-profit groups place a strong emphasis on:

- rehabilitation of owner-occupied and rental housing;
- increasing homeownership; and
- revitalizing small target areas through a combined strategy of rehabilitation and infill new construction.

With the local government, non-profit organizations, and private businesses committed to starting the partnership, it has developed a number of programs sponsoring homeownership, counselling and training, acting as a liaison between its clients and lending institutions throughout the purchase process, and providing 20 per cent of the homeowner's financing at below-market rates.

The partnership also plays a role in affordable residential real estate development throughout the city, helping other non-profit organizations and undertaking its own developments. The partnership's focal project, announced in 1994, seeks to rebuild a block of houses on Manship Street in mid-town Jackson, a neighbourhood near downtown that is one of the city's most distressed residential areas. The partnership assembled the land and a few buildings suitable for rehabilitation.

Initiator/sponsor

As noted above, the partnership was initiated by the city with advice from the Enterprise Foundation and the collaboration of a broad cross section of business, banking and community interest groups.

Other partners/financial involvement

Mississippi's four biggest banks—Bank of Mississippi, Deposit Guaranty, Union Planters Bank and Trustmark—provide below-market-rate loans to first-time homebuyers in tandem with second-mortgage loans from the partnership.

Jackson City Council established a land bank in 1994 as a mechanism for the city to dispose of blighted, tax-forfeited properties. The partnership manages the properties and helps the city dispose of the vacant lots or dilapidated homes. These are sold to local non-profit organizations at a minimal charge or deeded free of charge.

As part of the mid-town project, the City of Jackson will build new curbs and gutters and install new water and sewer lines, while Mississippi Power & Light will improve area lighting.

The partnership seeks to complement the activities of Habitat for Humanity, also active in the mid-town area by focussing on acquisition and rehabilitation of existing properties. Meanwhile Habitat for Humanity is building 50 new homes that will be sold to low-income families.

An important piece of the partnership's administrative funding was $438,000 in pledges of start-up funds from the corporations represented on the board plus a few other local sources. Most of these pledges covered a three-year period ending September 30, 1995, when they were renewed on an annual basis. Future annual renewals are expected.

Funding programs accessed

HUD HOME. Most of the funding—a total of $231,000—for second mortgage loans in fiscal year 1995 came from grants from the HUD HOME program that were passed through the city. Repayments of loans accounted for the rest. All repayments go back into what is, in effect, a revolving loan fund. In fiscal year 1995, these repayments amounted to $62,620.

CDBG. A small portion of the administrative costs are funded with CDBG funds.

Packaging

The partnership's core activity is making low-interest second mortgage loans in tandem with conventional first-mortgage loans. When the program began, the banks pledged to make up to $16 million in portfolio loans over a five-year period. This backing enables the partnership to offer loans both to low-income buyers and investors in low-income housing renovation projects. The partnership works with the prospective buyers to obtain financing from the participating lending institutions. Lenders offer mortgage loans at about one percentage point below the prevailing rate for 80 per cent of the amount financed. Borrowers pay typical closing costs and a $500 origination fee for the bank loan, although most of the closing costs can be financed with the tandem loan package.

To date, none of the lenders' loans has been sold in the secondary mortgage markets. While many of the loans could potentially be sold, the lenders have preferred to keep them in portfolio.

As its source of second-mortgage funds, the partnership uses federal funds passed through the city which provides the other 20 per cent of the financing at two per cent interest (fixed rate.). Both this second-mortgage loan and the first-mortgage loan are written for 25-year terms. The blended rate of the two loans was 6.5 per cent in late 1995.

During fiscal year 1995, the partnership invested nearly $248,000 in second-mortgage loans, a substantial decline from a first-year rush of nearly $1.5 million the year before that depleted its funds available for lending. Double the 1995 activity—nearly $500,000 in loans—is predicted for fiscal year 1996. That level is on target with the original business plan for the partnership.

As an adjunct to its neighbourhood redevelopment efforts, the partnership has developed a lease—purchase program aimed at very low-income households. Unable to qualify for home purchase loans because their incomes are too low, they lack funds for a down payment or their credit is too impaired. Eight existing homes that were purchased and rehabilitated by the partnership have been leased by very low-income renters with an option to buy. At this point, the clients in these homes pay rent that averages $375 a month and are expected to qualify for a home purchase loan within six months to two years, depending on their circumstances.

Impact on affordability

The program is marketed to households with incomes at or below 60 per cent of the area median income, which in 1996 was $22,440 for a family of four. Most of the partnership's funding sources would allow it to finance households with incomes up to 80 per cent of median income ($29,900 for a family of four), but it has imposed these tighter guidelines on itself. The 60 per cent-of-median standard is based on the belief that families with incomes above this level have reasonable opportunities for home purchases in Jackson's affordable inner city markets and do not require subsidies.

Key features/innovations

The low cost of housing is a key element in facilitating an affordable homeownership program. The initiative effectively uses federal grant funds from HOME and CDBG to lever private financing to households which would otherwise not be bankable.

The partnership sponsors homeownership counselling and training, acts as a liaison between its clients and lending institutions throughout the purchase process, and inspects homes chosen by clients, helps find contractors for needed renovations, and provides post-purchase counselling. This ongoing involvement with the clients helps to minimize default risk for the lenders.

Contacts

Source: Enterprise Foundation, Enterprise Resource Center's Best Practices Data Base (http://www.enterprisefoundation.org)

Voskamp Village Townhomes Pittsburgh, Pennsylvania

Overview

This project, now nearing completion, provides 10 single-family townhouse, for-sale units to households earning up to 115 per cent of the Pittsburgh metropolitan area median income adjusted for size of household. The developer is a non-profit corporation established by a neighbourhood council for development purposes. The partnership includes a commercial bank which provided a part of the construction financing, three community funds, a foundation which provided grants for operating expenses and development fees to the non-profit sponsor and the city redevelopment agency which provided loans and grants from various funds for part of the construction financing and all of the permanent financing for unit purchasers.

Background context

The Spring Garden Neighborhood Council worked with the Northside Leadership Conference (a multi- neighbourhood community organization and development group) and the Urban Redevelopment Authority of Pittsburgh to develop a site for affordable ownership housing on a vacant parcel. Former brewery structures on the site, vacant from 1907, were demolished in 1927. The most recent use of the site was a storage area for construction equipment.

Initiator/sponsor

The project was initiated by the Spring Garden Neighborhood Council to assist in the revitalization of this neighbourhood now largely populated by the descendants of its original German residents.

Partners/financial involvement

Northside Leadership Conference, created in 1981, assisted the Spring Garden Neighborhood Council in areas such as the creation of a development arm, and development and funding processes.

PNC Bank (formerly Pittsburgh National Corporation) provided a major portion of the construction financing.

PNC Foundation, created by PNC as a community development subsidiary of the bank in 1991 provided a grant for portions of the non-profit developer's administrative costs and development fees.

Pittsburgh Partnership for Neighborhood Development (PPND) provided a grant for the portions of the non-profit developer's administrative costs and development fees.

Community Design Center of Pittsburgh, created in 1993, provided a grant for the portions of the non-profit developer's administrative costs and development fees and design assistance.

Urban Redevelopment Authority of Pittsburgh (URAP) provided technical assistance and a portion of the construction financing, and permanent financing for unit purchasers.

Public funding programs accessed

City redevelopment agency construction loan and grant programs. Funds come from local, state and federal programs as well as city redevelopment agency construction loan programs. The loans from the Pittsburgh Housing Construction Fund (PHCF) and Community Development Investment Fund (CDIF) come from intermingled local, state and federal programs. Some of the sources include the federal Community Development Block Grant (CDBG) program, State of Pennsylvania allocations from a variety of programs, City of Pittsburgh development allocations and loan repayments from past loans.

Packaging

The ability of the Spring Garden Neighborhood Council to obtain technical assistance in the creation of a development arm and the attracting of financing made this project possible. The assistance came from a multi-neighbourhood community organization and development group along with the local redevelopment agency. The Pittsburgh area also has a consortium of local foundations (PPND) that has provided grants for operations for non-profit community-based development groups. The foundation of the commercial bank doing the construction financing also provided a grant to the non-profit developer for operating costs.

Home purchasers could borrow from any source but some government programs were available, specifically to assist lower-income households achieve ownership. The Pittsburgh Home Ownership Program (PHOP) provides high-ratio mortgages with a fixed-rate below-market interest rate to eligible households. Maximum income limits apply. Down payment requirements range from three to five per cent plus closing costs. Eligible households are either first-time homebuyers or any household buying in targeted neighbourhoods. The Voskamp project qualified for the Target Neighborhood Program.

The PNC also made loans from its CRA-generated programs. These are similar to the PHOP and to Fannie Mae's affordable mortgage programs.

Impact on affordability

The project provides 10 single-family townhouse units for sale. After applying the various grants, the units sell at a price of $78,000, affordable to households with incomes at or below 115 per cent of the area median.

Key features/innovations

The multi-neighbourhood community organization and development organization offered technical assistance outside that of local government. The Community Design Center offered both financial assistance and architectural review for the project.

Affordable mortgage programs with low down payments and below-market interest rates helped to make the homeownership affordable to target households. Here however, the target is more liberal—moderate-income households at or below 115 per cent of area median income.

Contacts

Bob Sheehan, McLean Virginia 703 893-9185

Construction costs and financing

Use of Funds	Total	Per Unit
Acquisition/land	$55,000	$5,500
Hard costs	$914,096	$91,410
Soft costs	$106,044	$10,604
Construction interest	$26,821	$2,682
Other [1]	$30,516	$3,052
Total	**$1,132,477**	**$113,248**

Note:
1 Sales costs and fees.

Development financing

Source	Rate	Terms	Amount
PNC Bank, construction	8.5%		$601,461
PHCF[2],loan	6.55%		$150,000
PHCF, grant			$250,000
CDIF[3]			$25,000
PPND[4]			$55,000
PNC Foundation, grant	N/A		$15,000
Community Design Center	N/A		$5,500
Other[5]			$30,516
Total			**$1,132,477**

Notes:
2 Pittsburgh Housing Construction Fund, Urban Redevelopment Authority of Pittsburgh.
3 Community Development Investment Fund, Urban Redevelopment Authority of Pittsburgh.
4 Pittsburgh Partnership for Neighborhood Development.
5 Fees and transfer taxes.

Permanent financing

N/A. Individual purchasers seek own financing. They could either use an independent lender or access the affordable mortgage programs of the PNC Bank or the city-operated Pittsburgh Home Ownership Program.

Florida State Housing Initiatives Partnership

Overview

The State of Florida enacted legislation in 1992 (the *Sadowski Act*) to ensure a dedicated flow of funds into housing programs operated by the state and local governments. Revenues are secured through a real estate transaction documentary stamp tax. As one of the programs funded by this revenue source, the State Housing Initiatives Partnership (SHIP) program was created specifically to stimulate local initiative and as an incentive to establish public—private partnerships to build, rehabilitate and preserve affordable housing. Funds are disbursed monthly to eligible communities and deposited into the Local Government Housing Trust Fund.

Background context

One of the earliest housing trust funds in the United States was established in Dade County, Florida in 1983, using a levy on document registration on commercial real estate transactions; many advocates had sought to expand this idea statewide. The SHIP and associated state housing programs are a result of the work of the recommendations from an ad hoc work group established by the Governor in 1991 and comprising representatives from the development, lending and affordable housing advocacy sectors as well as legislative staff. A broad-based coalition, again spanning private and community level interests, effectively lobbied for the adoption of the recommendations of the ad hoc work group, and with some compromises, the legislation was passed in 1992. The stamp tax initially increased from 60 to 70 cents to generate 10 cents per $100 value of the transaction being registered; in 1995, legislation added a further 10 cents per $100 from the existing stamp tax revenues. The legislation divides the proceeds of this levy such that 31 per cent is provided to state programs while 69 per cent of the funds are allocated to local initiatives through SHIP. In 1996, a total of $114 million was raised from this source, with $79 million allocated to SHIP.

Initiator/sponsor

The legislation and initial program was initiated through the state legislature, with broad support from a wide variety of community-based, local-government and private-sector support.

Other partners/financial involvement

The sole source of funding for SHIP is the dedicated documentary stamp tax levy. However, individual projects can draw on SHIP funds packaged with any other sources including other public sources such as federal CDBG, HOME, mortgage revenue bonds, other state programs or private financing including LIHTC equity.

Funding programs accessed

The documentary stamp tax is the primary source for the state fund. Each individual initiative can access multiple sources.

Packaging

A key element of SHIP is the requirement that each local government (city or county) must enact an ordinance to:

- establish a local Affordable Housing Assistance Trust Fund (as a depository for the funds);
- establish a Local Housing Assistance Plan (LHAP) which details the strategies and mechanisms to be implemented (LHAP can cover a one to three year period);
- designate responsibility for implementing the Homeownership Assistance Program (HAP);
- create an advisory committee with representation from each of residential homebuilding, real estate, banking, labour engaged in homebuilding, low-income advocate, an affordable housing provider and three additional members; and
- encourage the involvement of appropriate public- and private-sector partners to form partnerships in order to combine resources and reduce housing costs to beneficiaries.

Technical support is provided to localities through the Florida Housing Coalition, funded by the Florida Affordable Housing Catalyst Program. This education, training and direct assistance covers both development activities and ongoing portfolio management and administration activities.

A report must be prepared annually documenting how funds were used (and reporting on the other public and private funding accessed or levered).

In one example, Hillsborough County used SHIP funds to establish a loan guarantee fund and challenge local lenders to make reduced rate loans to first-time buyers in exchange for a loan guarantee. The county also provided gap financing/down-payment loans with no interest deferred payments over a term of five to 15 years. Some 370 first mortgages were written with $1.15 million of SHIP funds levering $21.4 million in first mortgages.

In another community, SHIP funds were levered 5:1 when $250,000 in SHIP funds together with a $250,000 in in-kind donations enabled a community non-profit organization to secure mortgage loans from the State Housing Finance Authority ($100,000) and a private lender ($444,405) to build a new shelter for battered women.

Impact on affordability

The target population for initiatives under SHIP is very low, low- and moderate-income households (i.e., below 80 per cent of median area income). Non-profit or for-profit agencies may apply on behalf of the targeted population.

Recipients of any local initiative funded through SHIP pay rent or mortgage payments (including taxes and insurance) that do not exceed 30 per cent of an area's median annual gross income. A household may pay more than 30 per cent of the households income only if the institutional first-mortgage lender is satisfied that the household can afford payments in excess of the 30 per cent benchmark.

Key features/innovations

The State Housing Initiatives Partnership is highly flexible and strongly encourages local initiative. By requiring an ordinance, it ensures local political awareness and acceptance. Similarly, private-sector involvement in establishing and monitoring the HAP increases private-sector awareness and participation.

SHIP funds are allocated on a per capita formula with a minimum entitlement of $350,000 and maximum of $5 million.

All 67 counties and 42 CDBG entitlement cities are participating and have adopted LHAPs. New housing partnerships and programs have been introduced where non-existing previously while other communities have used SHIP to strengthen and expand existing programs.

Related programs funded through the stamp tax levy and operated by the state include the Affordable Housing Guarantee program, Homeownership Assistance Program, the Pre-Development Loan Program and the State Apartment Incentives Loan (SAIL) program (low-interest second mortgages to private developers to build or rehabilitate rental properties with a 20 per cent set aside for very low-income households). These add to the toolkit available to localities in addressing housing needs.

Contacts

Robin Grantham, State of Florida Housing Finance Agency 850 488-4197

Construction costs and financing

In fiscal 1996-97 alone, $20.1 million of SHIP funds levered an additional $22 million of other public funds and $127 million in private financing (over $149 million in total) to assist 4,277 units. Since 1992, over 27,000 units of affordable housing has been created through SHIP initiatives.[2]

Tacoma Rental Apartment
Tacoma, Washington

Overview

While the primary proponent for this project was the community-based housing and service agency, a local network of housing finance agencies, both public and private, played an important role in enabling the project to achieve its objectives: affordable and safe housing for low-income families.

This 60 unit multi-family project was developed by a community non-profit organization in partnership with a lender consortium, the Washington Community Reinvestment Association (WCRA), the state housing trust fund and tax-credit equity provided through the Local Initiatives Support Corporation (LISC). Additional assistance was provided through the city, and the project benefits from a state initiative to encourage development in the core area using a tax abatement. The apartment is located on the northern edge of the downtown area close to transportation, services and schools.

Background context

The sponsor non-profit organization is a community development corporation providing a range of services including an employment and training program, detoxification and substance abuse treatment, and housing. The current initiative is a self-contained apartment for low-income families.

The Washington State Community, Trade and Economic Development (CTED) Housing Trust Fund is one of the older funds in the United States (established in 1986 with dedicated revenues from interest on real estate escrow accounts but also funded through state appropriations). The trust fund has implemented a four-part strategy to ensure long-term affordability: long-term amortized loans (generally 50 years), covenants that run with the land, shared appreciation loan schedules and a one per cent loan fee. The trust fund operates three programs: the Home Investment Partnership Program (HOME), the Affordable Housing Program (AHP) and the Housing Assistance Program (HAP).

The private-sector partners in this project are relatively passive, providing funds through a pooled loan consortia and through a LISC-managed, low-income housing tax credit fund. The WCRA is a non-profit association that provides a conduit for lenders to participate in affordable housing financing, while minimizing risk and meeting CRA requirements. The WCRA was established at the urging of officials from the Federal Reserve Bank following efforts to increase compliance with the CRA in the early 1990s. Almost all lenders, both local and interstate with branches in Washington State participate in the WCRA.

Initiator/sponsor

The project was initiated by an established community group, active in providing housing and social services in the area. It owns and manages a number of other facilities and apartments in the area.

Other partners/financial involvement

Washington State CTED Housing Trust Fund: $1,122,500 loan at 1.5 per cent interest payable over 50 years. This is secured as a second deed of trust (mortgage) on the property which in addition to securing the loan acts to ensure continued use of the property to house low-income families.

Washington Community Reinvestment Association (WCRA): $750,000 permanent loan, at 9.25 per cent over a 30-year term. (The rate set by the WCRA is pegged to the U.S. Treasury 30-year rate plus 150 basis points and is fixed 30 days prior to closing.) The associated construction loan was provided by a member bank of the WCRA.

LISC (through its subsidiary national equity fund) provided the tax credit equity in the amount of $2,260,000 as well as a loan of $23,500. Tax credit investor equity of $2,620,000 is based on

10 years of annual credits of $443,756 sold at $0.60 per dollar of credit to yield $2.26 million for the project.

City of Tacoma (CDBG funds from HUD) $50,000 grant.

The area benefits from a pilot state property tax incentive to encourage housing in urban centres. This effectively reduces property taxes by approximately $600 per unit per year, enhancing net operating income accordingly.

Public funding programs accessed

State Housing Trust Fund
LIHTC
City of Tacoma CDBG entitlement funds (from HUD)

Packaging

The non-profit sponsor group was successful in making application to the State of Washington CTED trust fund which works in close collaboration with the WCRA. LISC provided assistance in securing equity investment to significantly reduce the debt load on the project enabling rents to achieve very affordable levels. The involvement of the State Housing Trust Fund was instrumental in pulling the package together as this funding limits the risk for the private lenders.

Impact on affordability

All units will be rented to households of very low and low income. The rent structure is targeted to ensure affordability to very low income with 15 of the units at 30 per cent of median income and the remainder at or below 45 per cent area median income. This results in rents ranging from $288 for a one-bedroom unit to $432 for the three-bedroom units. Comparable market rents range from $415 (one bedroom) to over $700 (three bedroom).

Key features/innovations

Use of State Housing Trust Fund and lender consortium. There is no ongoing rent subsidy; the project achieved these rents as a result of the equity and low-interest financing package.

Contacts

June Reed/Susan Duren, Washington Community Reinvestment Association 1 800 788-6508

Use of Funds	**Total**
Land	$370,000
Buildings and site improvements	$3,557,250
Soft costs and fees	$662,218
Total	**$4,859,468**

Construction costs and financing
(Based of Preconstruction Estimates)

Source	**Rate**	**Terms**	**Amount**
WCRA (lender consortia)[1]	9.25	30 years	$750,000
Washington (CTED Housing Trust Fund)	1.5%	50 years	$1,122,500
LISC National Equity Fund (LIHTC)	equity	N/A	$2,620,000
LISC loan			$23,500
City of Tacoma			$50,000
Total			**$4,859,468**

Note:
[1] Construction loan provided by a member bank of the WCRA consortium which then arranged permanent financing.

Affordable Dwelling Unit Ordinance Fairfax County, Virginia

Overview

The Affordable Dwelling Unit (ADU) Ordinance creates partnerships between the local government and a private developer. It generates a small number of affordable housing units, either for sale of for rent with no public subsidy. The developer is typically a builder required to provide affordable units under the Fairfax County Affordable Dwelling Unit (ADU) Ordinance, an inclusionary zoning requirement in subdivisions meeting certain conditions. No public funding is required.

Two examples are included here involving an ownership and a rental development.

The ownership project is McNair Farm located in Fairfax County and providing 18 single-family townhouse-for-sale units to first-time buyer households with incomes at 70 per cent of the Washington metropolitan area median income adjusted for size of household. The development contains 144 units including the 18 ADUs. The units contain four bedrooms and two baths.

A rental development, the Jefferson at Fair Oaks rental apartment complex in Fairfax County provides a total of 12 affordable rental units in a 182-unit development. Four rental apartment units for households with 50 per cent or less of the Washington D.C.-Maryland-Virginia-West Virginia metropolitan area median income adjusted for size of household; and eight units for households with 65 per cent of area median income.

Background context

The Fairfax County ADU program applies to all developments in the county that are subject to rezoning, special exception, site plan or subdivision plat approval where:

- the site is to be developed at a density greater than one dwelling unit per acre;
- the site yields 50 units or more; and
- the site is within an approved sewer service area.

There are exemptions that include structures with four or more stories and having an elevator, or an application that involves proffers (donations of land or funds to the county in exchange for increased density).

The ADU provides:

- for single family detached or attached unit properties, a 20 per cent density bonus with a requirement that 12.5 per cent of all units to be built on the site be affordable dwelling units; and
- for non-elevator, multiple-family units or elevator units with three or less stories, a 10 per cent density bonus with a requirement that 6.25 per cent of units to be built on the site are affordable dwelling units.

An ADU program was developed in Fairfax County in 1971 but was never implemented due to a court challenge and subsequent finding by the State Supreme Court that it was not constitutional. The Virginia Legislature did pass legislation that permitted the establishment of ADU ordinances by local governments in 1989 with a stipulation that the Legislature approve the final ordinance. It has withstood a court challenge.

The current ADU program was developed in 1989 by a committee appointed by the County Board of Supervisors and composed of representatives from local government, the development community and citizen organizations. The development community also established a community organization (AHOME) to support the development of programs to provide affordable housing. Builders and developers are a major force in the organization participating with community leaders and business executives from other industries.

The ADU ordinance was approved by the County Board of Supervisors in late 1989 and the Legislature in 1990 with an effective date of July 1,1990. AHOME was deeply involved in its development and review and the help campaign for its adoption. This does not mean that every developer accepts the program with open arms. The development community involvement represented both concern for affordable housing and a desire to have input that would limit the financial impact on the industry.

Initiator/sponsor

In both examples included here, rezoning of the properties triggered the ADU requirement. The McNair ownership townhome project was initiated by Engle Homes in the Town of Herdon in Fairfax County, Virginia. The rental developer for The Jefferson is a limited partnership established by JPI, a national rental apartment development and management firm. JPI is the fee manager for the apartment community.

Other partners/financial involvement

Some developers/builders of ADUs do involve some federal government regulatory efforts and programs designed to increase lending for affordable units. Commercial banks and thrifts have programs to assist homebuyers seeking affordable units. These arose from the CRA that requires them to increase (or start) mortgage lending in inner city neighbourhoods and to low- and moderate- income households in general.

The First Union Bank, a local lender, has a variety of affordable mortgage programs, inspired by the CRA. One of these is the Community Partnership Mortgage. This permits 100 per cent mortgages with no down payment; the borrower must provide $500 for closing costs and the product is only available to households which participate in homeownership counselling with one of the bank's community partners—non-profit community service organizations involved in affordable housing. Buyers in the McNair Farm Development were able to access this program.

Construction and financing information were not available for the Jefferson rental development as disclosure is not required under the ordinance. However, the ADU program sets the rent levels for the affordable units based on the ability of households at 50 per cent and 65 per cent of area median income so construction costs are not a factor in setting ADU rents. The increased density allowances for market-rent units has proved to more than offset the costs associated with providing the ADUs.

Public funding programs accessed

None.

The developer/builder uses a typical program for construction and permanent financing. The construction loan in the McNair property came from a commercial bank. The developer would not give the terms or interest rate for the construction loan, but did say it was competitive and without concessions. The developer/builder offered permanent financing to buyers through a mortgage company for an adjustable rate or 30-year term mortgage with a 10 per cent down payment at prevailing interest rates at the time of the sale. The Fairfax County Redevelopment and Housing Authority (FCRHA), in its promotional material sent to preliminarily qualified eligible buyers, states that buyers should contact local lending institutions to determine if the interest rates and terms are competitive. Individual buyers were also able to access the First Union affordable mortgage programs.

Packaging

The FCRHA is the administrator of the ADU program. Part of its role is to develop specification prototypes for the ADUs and review developer/builder plans and specifications. Most for-sale ADUs are in townhouse projects or townhouse sections of planned communities. Some developers mix the ADUs in the rows of market-priced townhouse units. Many set them apart in separate sections of the development.

The county executive sets the sales price or rents for ADUs. Sale prices are set based on a combination of factors. First, they must be affordable to households with incomes of

70 per cent or less of the metropolitan area median income adjusted for household size. Rents are set based on affordability of households with incomes at 50 per cent and 65 per cent of area median income.

Builders are allowed to recover construction costs. No land cost reimbursement is permitted. They receive increased density allowances for market-price units to more than recover the ADU land costs. No profit is permitted on the ADUs. The developer/builder must submit detailed plans and costs to the FCRHA for review and approval. The rents or sales prices are set prior to the start of construction.

The FCRHA has the right to purchase up to one-third of the for-sale ADUs. However, in the history of the program, the county has purchased only 32 units (from a total of almost 1,000). They were purchased for scattered site, federally assisted public housing. With no funding for new public housing construction, little future activity of this nature is expected. The only new public housing construction will come from projects now in development or from the recapture of awards for units that were not constructed. Fairfax County is seeking means to acquire additional for-sale ADUs to serve as rentals for families requiring four bedrooms.

The FCRHA develops and maintains a preliminary pre-qualified waiting list of households eligible for government-assisted housing programs of all types including the ADUs. It does a promotional mailing to all households eligible for specific ADUs coming onto the market. This generally limits the amount of marketing required by the developer.

This has not proved to be needed for rental ADUs. Most tenants of rental ADUs have come through the existing marketing efforts of the developer, and the property managers have not found a need for special marketing for subsequent rentals after the turnover of a unit. Leasing agents are able to offer an ADU to prospective tenants who cannot afford the market rents based on their income levels.

Marketing of the for-sale ADUs has proved to be more difficult than the rentals. Households seeking to purchase a unit are not likely to go to the FCRHA to have their name put on the eligibility list. They are less likely to think of the local government as a source of help in finding an ownership unit. Developers/builders are now asking that the ADU ordinance be revised to allow the inclusion of increased marketing costs in the allowable sales price.

Sale prices and rents are controlled for 50 years, but a revision to the ordinance is under consideration to reduce this to 10 years for the for-sale units.

There are currently 986 units in the ADU ownership program (including both units that were sold or remain for sale). They represent about three per cent of the 33,000 single-family units issued permits in Fairfax County from 1990 to the present. Less than one-quarter of all units issued permits in the 1990s in the county have been in developments with ADU requirements. The proportion is increasing since the supply of lots in ADU-exempt developments is dwindling.

In the rental program, there are currently 383 ADUs. There was little rental apartment construction in Fairfax County in the first half of the 1990s and, thus, there are a limited number of ADUs in rental properties. Demographics are weak in terms of rental demand and the market was overbuilt in Fairfax County as it was in many areas of the country.

Impact on affordability

The McNair ownership project provided 18 single-family, for-sale townhouse units with about 130 square metres (1,400 square feet) of floor areas. The units with a sale price of $97,046 to $98,043 are affordable to households with incomes at or below 70 per cent of the area median. The 126 market-rate units in the development sold for $180,000 to $237,000, and do have more floor area with about 214 to 232 square metres (2,300 to 2,500 square feet), amenities and a one-car garage.

The rents in the Jefferson vary by unit configuration, and by target group. Rents for the units for households at or below 50 per cent of the median income are $586 for two one-bedroom, one-bath units; and $659 for two two-bedroom, two-bath units. Rents for the units at 65 per cent of the area median are $767 for four one-bedroom, one-bath units; and $857 for four two-bedroom, two-bath units. The comparable market rents range from $775 to $1,020 for one-bedroom units and $1,030 to $1,155 for two-bedroom, two-bath units.

Key features/innovations

Affordable rental and ownership units are provided without government subsidies and they are dispersed throughout the new development areas of the county.

The development community was an important participant in developing the local ordinance. Note that the total density bonus is 20 per cent (10 per cent in multi-family) with 12.5 per cent (6.25 per cent) of this directed to the affordable housing units. Thus, as part of the arrangements, the developer generates a net gain of 8.5 per cent (4.25 per cent) in the market component—a significant incentive.

Contacts

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Costs and financing, McNair Farms

Use of Funds	Total	Per Unit
Acquisition/land[1]	$0	$0
Hard costs	$1,258,866	$69,937
Soft costs	$439,758	$24,431
Construction interest	$49,104	$2,728
Other	$0	$0
Total[2]	**$1,747,728**	**$97,096**

Notes:
1 Donated as part of ADU requirement.
2 Builder is not permitted a profit.
Financing details not available as no disclosure is required from developer.

Catholics For Housing—Thornwilde Commons Prince William County, Virginia

Overview

This initiative involves a partnership between a non-profit housing group and a private developer, Drees Company, a national builder. There is no government involvement, and no public funding was accessed. This project is providing 33 single-family townhouse, for-sale units to households with incomes at or below 80 per cent of the Washington metropolitan area median income adjusted for size of household. The units are located in the Thornwilde Commons section of Southbridge, a 7,000-unit planned community in Prince William County, Virginia. About 700 lots have been developed in the community since the beginning of construction in 1991. The units contain three bedrooms and 1.5 baths.

Background context

Catholics For Housing (CFH) started an effort to enlarge its role the development of affordable housing in the northern Virginia area in early 1997. A chairperson with more than 30 years of experience in residential development consulting was recruited to serve as a board member and chairman of the development committee. The chairperson in turn recruited 12 senior executives and professionals from development, construction and the banking/financing industry to serve on the committee. The development committee concluded that CFH needed to explore projects that would help build a capital base for future projects, and a for-sale project for moderate-income households could accomplish this aim. A wide search for sites then ensued. Several developers were approached and discussion began with Drees Homes. They were developing a 200-unit townhouse project in Southbridge with sales prices in the $115,000 to $120,000 range and suggested a joint exploration of CFH's ability to serve its mission with a portion of the last 50 units in the development.

Initiator/sponsor

The project was initiated by CFH, a non-profit corporation. CFH is a non-denominational organization established in 1979 by laity from several parishes in the Roman Catholic Diocese of Arlington, Virginia. The diocese boundaries encompass 28 counties and eight independent cities in northern Virginia. Many members of the board are not Catholic. CFH is not directly affiliated with the Diocese of Arlington. Its mission is to serve those in need of affordable, decent, safe housing regardless of race, creed or national origin. CFH developed only one project in 1980, a 30-unit federally assisted rental housing property that it still owns as managing partner. It is also involved in several housing-related counselling and training programs for low- and moderate-income households.

Partners/financial involvement

CFH and Drees Company, after initial discussions, agreed to pursue a joint effort to privately develop the remaining Drees townhouse lots in Thornwilde Commons. This will benefit the developer by helping to close out the development. In return, Drees is taking a limited fixed profit on each home while CFH takes on the marketing and potential to generate a subsidy pool to enhance affordability.

Public funding programs accessed

None

Packaging

CFH and Drees Company, after initial discussions, agreed to pursue a joint effort to privately develop the remaining Drees townhouse lots in Thornwilde Commons with the following goals:

- to increase housing opportunities for low- and moderate-income households;
- to test a collaborative development model that benefits both the non-profit and for profit developer;

- does not rely on federal subsidies and
- is replicable; and
- to support national efforts to increase the homeownership rate of lone-parent households, immigrants, ethnic and racial minorities.

The discussion between Drees and CFH led to an agreement with the following principal elements.

Drees agreed to:

- Sell the lots to CFH for $20,000 each and take back a $5,000 per lot non-recourse note. The deferred note to be repaid on a per lot basis when the home settles to a purchaser. The repayment is contingent upon all other costs being paid including a one per cent fee for CFH and profit to CFH that is projected to average about $5,000 per unit.

- Build two models from its line at a fixed cost of $62,000 per unit.

- Provide an on-site sales person in its model unit in Thornwilde Commons.

- Provide a warranty to home purchasers: two years for all components and 10 years for structural components.

Catholics For Housing agreed to:

- Be the developer.

- Provide counselling to buyers. Most of the purchasers will be first-time buyers and many are expected to need assistance with credit problems and to know how to act as fiscally responsible homeowners.

- Determine how the base profit will be distributed. Some purchasers will be awarded grants based on need to assist with down payments and closing costs or a buy-down of the interest rates. A portion of the profits will go into CFH's capital fund for future projects.

- Share with Drees any profits at the end of the project that exceed the expected $5,000 per unit.

First Union Bank is likely to be the construction and permanent loan lender. First Union has three affordable mortgage programs that have potential applicability to the individual homebuyers. They arose from the CRA that requires commercial banks and thrifts to increase (or start) mortgage lending in inner city neighbourhoods and to low- and moderate-income households in general. The CRA was legislated in 1977, and a flurry of activity ensued for the next few years. Then it was largely ignored in the 1980s. The real estate banking and thrift crisis of the late 1980s produced more stringent underwriting standards for real estate lending and pressure to follow the CRA requirements. And federal regulatory oversight of CRA increased along with more detailed reporting requirements.

Impact on affordability

The project provides 33 single-family for-sale townhouse units. Two model units are available, one with 120 square metres (1,290 square feet) of floor area and the other with 116 square metres (1,250 square feet). The units carry a sales price of $104,900 for the smaller unit and $107,900 for the larger one. This is the same base price for the same models sold at market rates in Thornwilde Commons. Neither the CFH nor Drees wishes to diminish the value of the units already purchased in the development. The CFH unit purchasers will have the advantage of receiving assistance to reduce the mortgage interest rate or a grant to help with closing costs. They can also reduce the mortgage balance with the grant (they are seeking an Internal Revenue Service ruling to determine the tax consequences for the purchasers using this alternative).

Key features/innovations

Affordable ownership dwelling units are provided without direct government involvement or subsidies, but some internal subsidies are provided to increase affordability—generated from non-profit developers' project profit.

Affordable to moderate-income households
(in an area with a relatively high median income).
Would not be possible to penetrate to low income.

Contact

Bob Sheehan, McLean Virginia 703 893-9185

Project financing

Use of Funds	Total	Per Unit
Acquisition/land	$660,000	$20,000
Hard costs	$2,046,000	$62,000
Soft costs	$501,236	$15,189
Construction interest	$115,500	$3,500
Total	**$3,322,736**	**$100,689**

Note:
Sales price expected to average about $105,990 per unit leaving a profit of $5,301 (to the CFH).

Construction costs and financing

Source of Funds	Total
Bank, construction loan	$2,662,737
Bank, land	$495,000
Drees, land deferred note	$165,000
Total	**$3,322,737**

Parkside Homes
HOPE VI Redevelopment
Detroit, Michigan

Overview

Parkside Homes is one of the severely distressed public housing sites being revitalized under the HUD HOPE VI program. The HOPE VI program is a deliberate attempt to form and utilize a partnership approach among public housing authorities, non-profit organizations, the private sector and residents to eradicate severely distressed public housing developments. Revitalization of the sites includes improvement in the physical condition, management systems, and the social and economic well-being of the residents.

Typical of most HOPE VI projects, the redevelopment of Parkside is combining a public-sector investor with the participation of private partners using a low-income tax credit. The redevelopment combines seniors housing, family rental and an assisted homeownership program with the expectation of generating a mixed-income profile in an area which was previously characterized by very low-income households (90 per cent below 15 per cent of area median income). In addition to the 570 new or refurbished units on site, 350 renter families will be assisted through a homeownership program that will enable them to access ownership off site.

Background context

HOPE VI (formerly known as the Urban Revitalization Demonstration Program) was established by HUD in 1992 following the recommendations of the National Commission on Severely Distressed Public Housing. Eligibility was restricted to public housing authorities either in one of the 40 most-populated cities, or a PHA on HUD's Troubled Housing Authority list in March 1992. Applicant PHAs were permitted to propose a plan that covered up to 500 units with grants capped at $50 million. At least 80 per cent of the funds must be used for physical improvements. A total of $1.6 billion was appropriated between 1993-95, and 34 implementation grants awarded. The initiative is directed at seriously distressed projects for which the conventional HUD modernization program would be ineffective since these project are both old and large.

Parkside Homes is the smallest of the so-called "big four" large distressed public housing sites in Detroit. with 737 and 327 units on two adjoining sites (Parkside and the Annex). In January 1995 only half of the units were occupied. It is well located, adjacent to a large park, a hospital and college. As such, it was seen as an ideal candidate for mixed-income redevelopment under the HOPE VI initiative.

An extensive process of community consultation and participation has resulted in plans for the creation of four separate villages, providing a total of 570 units (408 rehabilitated and 162 new), including 79 fully accessible units. Three villages will each provide between 119 to 139 family townhouse units (one to five bedrooms) while the fourth village will be reconfigured to provide 175 apartment units designed for the elderly. Demolition of some 350 existing units is necessary to reconfigure the site.

Initiator/sponsor

The Parkside redevelopment was initiated by the Detroit Housing Commission (DHC), following a proposal to HUD under the HOPE VI initiative.

Other partners/financial involvement

In order to carry out the redevelopment the DHC has created a relatively complex legal and ownership structure with many subsidiary entities. This is necessary to comply with the tax and subsidy regulations. The DHC has also solicited and selected a private partner.

The lead entity, wholly owned by the DHC, is the Parkside Development Company Inc. However, subsidy and grant funds continue to flow through the DHC. The existing property has been segregated into four legal entities—The

Village at Parkside (TVP) I, II, III and IV—which are the ownership entities participating in the syndication. For the purpose of this illustration, the details of this complex legal structure are not necessary, save to say that it is a very complex structure and process.

The Fourmidable Group is a private real estate organization which is in partnership with First Financial Management to syndicate the low-income housing tax credits and provide financial management. Both the Fourmidable Group and First Financial Management have also created subsidiaries to act as limited partners in the syndication.

The Michigan State Housing Authority will issue the tax credit allocation to the four TVPs.

- The DHC acts as a lender using HUD provided capital.
- A community-based group, the Church of Messiah Housing Corporation, is providing the education and counselling program to support the homeownership program.
- Fannie Mae is indirectly involved in that homeownership program buyers may access some of Fannie's affordable homeownership mortgage products, and Fannie Mae is providing computer software and guidebooks for the counselling program.

Funding programs accessed

HOPE VI
HUD development funds
Low income housing tax credit

Packaging

The site will be redeveloped through selective demolition, infill and rehabilitation. Total redevelopment costs are estimated at approximately $70 million. This will be funded through HOPE VI, augmented by various HUD public housing redevelopment grants, and with equity financing provided through the LIHTC ($16 million). As these funding sources are all effectively grants, there will be no ongoing debt service costs. The rental tenants will continue to be eligible for ongoing project-based subsidies through the HUD public housing program.

In addition to the 570 on-site and 350 off-site homeownership units, the redevelopment will create a new community building as well as fund a service endowment fund. This will be funded from part of the proceeds of the LIHTC equity investment and will ensure that, even without ongoing public subsidies, day care, youth and seniors programs are provided on site. This will also provide access to off-site providers of social, health, educational and economic development services. The objective is to create opportunity for the residents to build on a safe housing environment to become self-sufficient.

Each of the villages will be separately managed by on-site management staff who will also live on site. A goal of the redevelopment is to replicate best practices in private multi-family property management, rather than the discredited large-scale public administration that typified public housing.

A homeownership plan has been established with a community-based, non-profit agency—Church of Messiah Housing Corporation—to assist any public-housing-eligible household (first priority to existing Parkside tenants) to make the transition from renting to ownership. Under this program, participants must complete a 32-week course covering homebuying, financial management and maintenance. The graduates are eligible for a financial package through the DHC in partnership with local lenders. The homeownership program is a partnership between the DHC and private lenders where the participant purchases an existing home (not in Parkside).

The household must be credit worthy and qualify for a first mortgage up to 75 per cent of the value. The DHC will provide a silent second (typically 25 per cent up to $9,000) which is forgiven after 10 years if the owner remains in the house and current on the first mortgage. Participants must earn a credit of $900 of sweat equity (included in the $9,000) by working 100 hours on their own home, the homes of others or in an approved service program. In total, the purchase of homes by these new buyers is expected to involve an outlay of $12.5 million, with $9.2 million financed through conventional private lenders, $0.3 million through buyer sweat equity contributions and the remaining $3 million in silent second mortgages funded by the DHC from the HOPE VI funds.

Impact on affordability

Ninety per cent of the residents on the site, prior to redevelopment had income below 15 per cent of the area median ($50,000). Under the redevelopment the property will have a mix from this low level through to 60 per cent of the area median.

A total of 570 households will be assisted on site while a further 350 (current target, but this could expand) households will be assisted in purchasing an existing home off site.

Key features/innovations

Major redevelopment of very distressed public housing involves very substantial public investment.

Introduces private property management and ownership model and practices (even through the property will remain under the ownership of the DHC.

Uses public funding to lever additional private investment, first through the LIHTC syndication and second in the homeownership program where a private lender is participating with households which would not previously have been eligible for mortgages.

Construction costs and financing

Use of Funds	Total $millions
Residential redevelopment	$42.8
Community building	$3.1
Demolition and asbestos removal	$3.5
Contingency	$4.5
Services/management	$6.0
Professional fees	$7.2
DHC/PRC (residents council)	$1.1
Home purchases	$12.5
Total	**$81.2**

Development financing

Source of Funds	Total
Source of Funds	Total
HOPE VI	$42.8
Comp grant	$5.8
HUD development funds	$5.2
LIHTC equity	$16+
Home mortgage loans (conventional lenders	$9.2
Buyer down payments	$0.375
Total	**$81.2+**

Contact

Tom Nutt-Powell, Capital Needs Unlimited
313 963-4119

Endnotes

1 The LCDP was an attempt to establish a consortia of local lenders as a way to pool risk and met CRA targets. It is a loose affiliation of local lenders but not overly active. See Willis Commons, Delaware for an example of a more active lender consortia.

2 Note: the total of revenues distributedto localities from the stamp taxapproximated $80 million. The localitieshave three years to expend these and in 1996-97 have implemented initiatives requiring only $20.1 million of this total.

Appendix C:

Canadian Case Study Profiles

Elizabeth/Chestnut Rental Project, Toronto, Ontario C-2

Royce Dupont, Toronto, Ontario C-4

Kennebec Seniors Housing, Saint John, New Brunswick C-6

Kamloops Legion, Kamloops, British Columbia C-8

Housing Opportunities Partnership, Winnipeg, Manitoba C-10

Montréal Investment Fund, Montréal, Québec C-12

Pilot Neighbourhood Revitalization Hochelaga-Maisonneuve, Montréal, Québec C-15

Elizabeth/Chestnut Rental Project Toronto, Ontario

Overview

At a time of reduced funding for social housing programs, Cityhome, the City of Toronto's non-profit housing corporation, used a city-owned site and an innovative joint venture arrangement to secure commercial funding for a rental apartment project. Cityhome brought in a private-sector joint venture partner to lease the land, undertake the construction of the apartment building and lease it back to Cityhome to rent to tenants. The financing package included an interest-free loan from the provincial government (under the Renterprise program). A critical component of the financing package was the leasing arrangement whereby the private-sector joint venture partner was able to access capital cost allowance (depreciation losses) from the project as deductions against income from other sources.

Background context

The project was initiated in 1985, at a time when there was limited funding available for social housing. However, the Ontario government had announced Renterprise, a new program aimed at stimulating rental production through the provision of zero-interest second mortgages on selected new rental projects.

The City of Toronto had obtained the site for the project in 1983, as part of the negotiations for the second phase of the Eaton Centre project. Since the site was zoned for mixed (residential/commercial) usage, and since it was considered that the commercial component could help to subsidize the residential component, a mixed-use project was favoured. However, the city solicitor was concerned that such a mixed-use project would violate Cityhome's articles of incorporation.

Therefore, Cityhome invited several developers to submit proposals for a joint venture development on the site. The proposal from L&G Enterprises was selected.

Initiator/sponsor

Cityhome was the initiator of the project. As a result of its successful proposal, L&G negotiated a joint venture agreement with Cityhome.

Other partners/financial involvement

There were no other formal partners. However, the project did utilize the Renterprise program from the Ontario government. This program provided $1,656,000 for 15 years with no interest or principal repayments during this period.

Public funding programs accessed

In addition to the Renterprise second mortgage, the project utilized federal/provincial rent supplements to provide rent geared to income units for low-income tenants.

Packaging

Cityhome holds 75 per cent of the equity in the project. L&G, its joint venture partner, holds 25 per cent of the equity. These amounts were determined based on Cityhome's contribution of the residential share of the site (estimated at $2,097,000), and L&G's agreement to forego $700,000 in profits on the construction of the project (based on the assumption that L&G would normally expect roughly 10 per cent profit on the $7 million estimated construction cost.

Cityhome leased the land to L&G for a nominal rent of $1 per year for a term of 40 years. L&G was responsible for constructing the project and leasing the building back to Cityhome at the same term as the land lease. L&G receives a management fee to cover utilities, maintenance, insurance, salaries and benefits, etc. Also, L&G benefits from the use of capital cost allowance for the project. According to an estimate prepared in 1990, the potential tax savings to L&G were roughly $1.6 million, in present value terms. Upon completion of the land lease (40 years), Cityhome becomes the outright owner of the residential component of the project.

In addition to the residential component of the project, there is a commercial component which is financed separately from the figures shown here. The arrangements are similar: L&G leased the office space to the City of Toronto at $17 per square foot (net) at the outset (1987), with escalator clauses for future years. At the end of the lease, L&G has the option to purchase the commercial component, including the land, through a pre-established formula.

Impact on affordability

The project was built at a time when there was little new rental construction in Toronto; vacancy rates were less than 0.5 per cent. Simply providing a new rental supply was positive for the market.

In addition, the rent supplement funding provided rent geared to income assistance to those with low incomes.

Key features/innovations

The leasing arrangements were unique and were critical to the success of the concept. Transferring ownership of the buildings to L&G allowed the use of capital cost allowance on the properties to offset L&G's income from other sources. This provided a substantial tax benefit which Cityhome, as a non-profit corporation, would not have been able to access. By engaging L&G as a partner, Cityhome could indirectly utilize these tax benefits.

The economics of the project were also dependent on the interest-free Renterprise loan.

Contact

Lily Mak, Treasurer, Cityhome 416 392-6608
Supplemented with information from
Van Dyk 1991.

Construction costs and financing

Use of Funds	Total
Land	$2,097,000
Buildings and site improvements	$10,260,129
Total	**$12,357,129**

Permanent financing

Source	Rate	Terms	Amount
Developer Equity			$700,000
Cityhome Cash Equity			$151,000
Land Value			$2,097,000
Renterprise Mortgage			$1,656,000
Conventional Mortgage	11.65%	35 years	$7,753,129
Total			**$12,357,129**

This was the financing for the residential component only. In addition, there was a $1,422,171 mortgage for the commercial part of the project to cover the construction costs. The estimated $1,048,000 commercial land component comprised the equity for the commercial mortgage.

Royce Dupont
Toronto, Ontario

Overview

Cityhome (the City of Toronto's non-profit housing corporation) sponsored the project as its first venture into providing low-cost affordable homeownership units. The site was originally purchased for social housing but was subsequently converted to a freehold townhouse ownership development.

Cityhome provided the land (interest free), at its appraised value, under the condition that the units would be affordable, that there would be curbs on speculation and that Cityhome tenants would have the first right to purchase the units. The Arcadia Group was selected to develop the project in a proposal call. The units were relatively inexpensive ($116,000 to $136,000 for a three-bedroom freehold townhouse) and had a "phantom" second mortgage of $20,000 which the purchasers did not have to repay if they retained ownership of their unit for 12 years. The purpose of the phantom second mortgage was to curb speculation and to capture at least part of any windfall gains resulting from purchasers "flipping" their units.

Background context

Cityhome had acquired the site with the intent of building 145 to 150 units of social housing. Community opposition resulted in a change in plans to a scaled-down (55 units) social housing project on the Dupont Street (arterial road) frontage and a plan for affordable ownership townhouses on the remainder of the site.

A proposal call was issued in 1994, for the ownership component of the project. Proposals were judged on the basis of the amount offered for the land, the proposed price structure for the units and approaches for discouraging speculation and ensuring the ongoing affordability of the units. The Arcadia Group was selected from among five proposals received.

Subsequent to the completion of the project, the funding programs for social housing were cancelled and the remaining portion of the site was also developed with similar housing, under similar arrangements with the same developer.

Initiator/sponsor

Cityhome was the owner of the site and the initiator of the project. Cityhome issued the proposal call; the proposal from the Arcadia Group (a private developer) was selected among five proposals received. The Arcadia Group was then responsible for building and selling the units, as well as the design of the mechanisms intended to minimize speculation.

Other partners/financial involvement

No other partners had a significant involvement in the project.

Public funding programs accessed

Cityhome provided the land, for which it was paid (at the appraised value) following the sale of the units by Arcadia. The city was not paid interest on the value of the land during construction. Also, there was minimal advertising required for the project since Cityhome canvassed all its tenants regarding their potential interest in purchasing units in the project.

Packaging

There were three types of units. The typical unit had three bedrooms, with 1.5 baths, selling for $126,000. A stripped-down version of the same unit (unfinished half bath and third bedroom) sold for $116,000. The four corner units were priced at $136,000.

The project was financed conventionally—except for the phantom second mortgages, which were intended to minimize speculation. The phantom mortgages were for $20,000. Principal and interest are forgiven at the rate of 1/12th per year for 12 years. If the property is sold earlier than 12 years following the original purchase, the balance outstanding becomes due and payable to Cityhome. The phantom mortgage disappears after the owner has held the property for 12 years.

As a condition of the deal, Cityhome required that the units be marketed first to Cityhome tenants, prior to being advertised to the general public.

Impact on affordability

The $116,000 to $136,000 price range was very affordable for a relatively centrally located townhouse project in Toronto. While no studies of the actual market value of the units are available, the prices were likely less than market. Many, though not all, of the purchasers were Cityhome tenants. At least some of these tenants would have had difficulty affording a comparable unit on the private market.

Key features/innovations

The use of the phantom second mortgage was an innovation intended to curb speculation and to keep the units affordable. According to Cityhome, the phantom mortgage concept was not a serious negative concern for purchasers.

Arcadia arranged financing for unit purchasers through the Bank of Montreal at below-market rates.

Pre-selling the units to tenants of Cityhome's existing projects was an innovation intended to provide ownership opportunities to those who might otherwise not be able to afford to purchase a home and to free up existing social housing units for prospective tenants on the waiting lists. In the end, selling to first-time buyers from plans proved to be difficult, as prospective purchasers had difficulty envisaging what they would be getting. As a result, less than half the units in the original 24-unit project were sold to Cityhome tenants. Arcadia finally had to resort to advertising to attract interest from the general public.

Contacts

Ross Winter, City of Toronto Community Services, Housing Division 416 392-6614

Construction costs and financing

The land was provided by Cityhome at a price determined by an appraisal carried out for the city. Other than the fact that the land was provided interest free, no direct or indirect subsidies were involved in either the base land or construction costs, or in the financing. No government financing was involved.

Arcadia paid a deposit at the time of acceptance of its proposal, and an additional amount at closing. Cityhome took back an interest-free second mortgage during construction.

Permanent financing

The units were financed with conventional mortgages. Arcadia arranged mortgages with the Bank of Montreal at below-market rates. Since the purchasers were first-time homebuyers, they would have been eligible for CMHC's First Home Loan Insurance Program.

The phantom second mortgage is held by Cityhome and is forgiveable progressively over 12 years.

Kennebec Seniors Housing
Saint John, New Brunswick

Overview

A rental apartment project, built with donated labour, and financed by donations plus a commercial mortgage was built next to a nursing home, in order to provide housing for family members of the nursing home residents. The nursing home had been in operation for a substantial period and its sponsors had a good track record in loan repayments, plus significant equity—key factors in the decision of CMHC to underwrite the high-ratio loan required to finance the project.

Background context

Kennebec Senior Housing Inc. is a non-profit group which proposed to build a 20-unit apartment building. The company is associated with Kennebec Manor, the non-profit owner of a 70-bed nursing home which is located immediately adjacent to the proposed apartment building. Both of these non-profit groups are sponsored by the Seventh Day Adventist Church.

The apartment building was geared to providing housing for people who had family members in the adjacent nursing home. Also, both the nursing home and the apartment building are next door to the Seventh Day Adventist church. Occupants of both projects are predominantly members of the church.

Initiator/sponsor

The Seventh Day Adventist Church was the ultimate sponsor of the project, working through Kennebec Senior Housing Inc., a non-profit company formed specifically to undertake the project. The same group also sponsors Kennebec Manor. The congregation had collected $110,000 in donations to help finance the project, and also contributed the land which was considered to be worth $65,000.

The nursing home project, which had been developed under a previous federal social housing program, had a cash surplus of $65,000 and equity in the project of approximately $1 million. These provided important comfort in the assessment of the project for lending purposes.

Other partners/financial involvement

CMHC provided NHA mortgage insurance for a normal high-ratio loan from a commercial lender. The normal application fees and mortgage insurance premiums were payable on the loan insurance. CMHC did not require additional covenants from the borrower, partly due to the excellent record of loan repayments for the nursing home project, as well as the equity in that project.

The labour for the project was provided by Maranatha Volunteers International which provides volunteers for many worthy projects worldwide (they were working on rebuilding a Cuban village which had been destroyed by a hurricane, at the time of the initial application for CMHC insurance).

Public funding programs accessed

No public funds were accessed for the project. The normal CMHC requirements for covenants may have been relaxed, in view of the financial capacity and excellent repayment record of the project sponsors.

Packaging

The project would likely not have been possible without the support of the adjacent nursing home. With the accumulated equity, and the expertise of the sponsors of the nursing home project, it was apparent that the project would be viable without the normal covenants which would have been required. Targeted at family members of the nursing home residents, the apartment project had a captive market. The sponsors had a substantial waiting list to demonstrate the viability of the project.

The donated labour was also a key component in reducing the costs of the project to a level which could be carried by market rents.

The project also qualified for a GST (federal sales tax) rebate.

Impact on affordability

The rental apartment project carried market rents—anything less than market rents would have made the project non-viable. Therefore, the impact of the project on affordability was likely minimal. However, by providing housing immediately adjacent to the existing nursing home, the apartment project allowed family members to be near the nursing home residents—a significant social support. The proximity of the church was also likely an important factor for the residents of both the apartment project and the nursing home.

Key features/innovations

The partnering of the apartment project with the next-door nursing home was a key ingredient in the success of the project. The nursing home had considerable equity and a good track record in repaying its mortgage loan. This was a factor in the provision of mortgage insurance without the additional covenants which may have been required for a private-sector borrower.

The labour donation was clearly another major factor in the success of the project. Identified in the project financing details as worth $190,000 (likely a low figure—$9,500 per unit), the donation of the labour allowed the project to proceed on a commercial basis with relatively little additional equity.

Contact

Tom Leveque, CMHC, Canadian Centre
for Public-Private Partnerships (Halifax)
902 426-8430

Construction costs and financing

Use of Funds	Total
Land	$65,000
Buildings and site improvements	$981,976
Total	**$1,046,976**

Permanent financing

Source	Rate	Terms	Amount
Donations			$110,000
Labour (donated)			$190,000
Land (donated)			$65,000
Tax rebates			$21,910
Mortgage loan	8.35%	5 year term/30 year amortization (commercial terms)	$660,066
Total			**$1,046,976**

Kamloops Legion
Kamloops, British Columbia

Overview

The Kamloops Legion and a private developer approached the city and CMHC to assist in the development of a strata-titled apartment project in the downtown area of Kamloops. The 48-unit project was to be built on land leased from the city. The majority of the units were to be sold to individuals at below-market prices and seven units were to be retained for the affordable seniors housing pool of the municipality.

Background context

The intent of the project was to provide low-cost ownership and rental housing in downtown Kamloops. In addition, the Kamloops Legion was seeking to construct a new Legion facility and community hall. The Kamloops Legion formed a partnership with a private developer and negotiated an arrangement with the city to provide a 99-year lease on a city-owned site.

In addition to leasing the land, the city made a contribution of much of the value of that lease to provide equity for seven affordable seniors housing units to be part of the project. The remaining units were sold at below-market prices, with the requirement that a contribution of part of the resale price go to the Kamloops Foundation—a community fund administered by the city.

Initiator/sponsor

The Kamloops Legion is a non-profit corporation which was interested in sponsoring the project and eventually building a new Legion facility and community hall adjacent to the apartment building.

Other partners/financial involvement

The City of Kamloops provided a lease on the site for a term of 99 years, at a total price of $421,000. In addition, the city agreed to provide $321,000 of the lease value to allow the Legion to purchase and manage seven rental apartment units in the project, which would form part of the affordable seniors housing pool.

The private developer provided $207,686 in equity as well as being responsible for undertaking development coordination, obtaining planning approvals and project financing, construction management and marketing.

Public funding programs accessed

No public funding programs were accessed. The only explicit subsidy was the city's deferral of payment for part of the land.

Packaging

The project was strata-titled to allow sale of the units to individuals—other than the seven units retained for the seniors housing pool. The package put in place in order to finance construction consisted of an insured construction mortgage (with NHA premiums payable) which would ultimately be paid down once the units were sold.

The city's deferral of payment of over three-quarters of the value of the land lease provided the equity necessary for the purchase of the seven rental units.

The developer and the Legion contributed the cash equity and the city contributed the land for the period of construction. Ultimately, the city was to be paid $100,000, with the remainder of the land lease payment taken in the form of an equity investment to purchase the seven rental units.

This financing was in place only for the construction period and as a backstop to the ultimate pay-down of the mortgage following the sale of the units to individual owners. These owners would be responsible for their own financing (to the extent that it would be required).

Following the sale of the first 35 units in the project, the mortgage will be paid down to $259,230 for the seven rental units. The developer's profit will be dependent on the sale of the remaining units.

The value of the seven rental units is estimated at $580,230. The difference between this and the $259,230 mortgage is the $321,000 ($45,800 per unit) contribution from the City of Kamloops. The rent stream from these seven units is calculated to provide a debt coverage ratio of 1.88—more than sufficient to cover the mortgage.

CMHC required that 35 of the 48 units in the project be pre-sold prior to commencement of construction (including the seven units sold to the Legion). This would provide sufficient cash for the developer to pay down the mortgage to the planned $259,230 for the rental units. The above financing was put in place as a worst-case scenario. The market rents for the full project were considered to be sufficient to cover the mortgage payments, with a debt coverage ratio of 1.00.

Construction costs and financing

Use of Funds	Total
Land (lease)	$421,000
Buildings and site improvements	$2,931,686
Soft costs	$626,000
Total	**$3,978,686**

Impact on affordability

With the city providing the land with a deferred lease payment (due on resale of each unit), the overall cost of the project was reduced, which was reflected in the sales prices of the units. The initial selling price was set at 90 per cent of the market value of the units. The owners will be required to pay 15 per cent of their equity on resale to the Kamloops Foundation, a community fund administered by the city.

The seven rental units will be part of the city's affordable seniors housing pool.

Key features/innovations

CMHC's waiver of the normal covenant requirements represents a bending of its underwriting criteria.

The city's 99-year land lease and deferral of payment for most of the value of this lease was a significant factor in the economics of the project. Some of this will be recovered by the Kamloops Foundation, when the units are resold by their original purchasers.

Contact

Brian Ricketts, CMHC, Canadian Centre for Public-Private Partnerships 613 748-2381

Financing

Source	Rate	Terms	Amount
Developer's cash equity			$207,686
Deferred lease payment			$421,000
Commercial loan	9.5%	(excluding insurance fees)	$3, 350,000
Total			$3,978,686
Mortgage insurance			$41,875
Total			**$4,020,561**

Housing Opportunities Partnership Winnipeg, Manitoba

Overview:

A recently created initiative, the Housing Opportunities Partnership (HOP) is seeking to emulate the experience in the United States, drawing specifically from the Columbus Housing Partnership. One of the few efforts to date to establish a permanent housing partnership in Canada, it provides a useful case to examine the potential to replicate U.S. approaches in Canada.

The initiative is led by a broad-based partnership drawn from the real estate and business community and including all three levels of government. The objectives of HOP are to promote access to homeownership while undertaking a program of stabilization and housing rehabilitation in inner city neighbourhoods. A revolving loan fund has been established with proceeds from the interest earned on real estate deposits and this will be augmented through applications to various government programs and through a fund-raising campaign.

Background Context

Although not as distressed as many U.S. cores, the core area of Winnipeg has suffered from poverty and poor housing conditions, with a high proportion of rental housing, transient population and problems with crime. At the same time, homes in the area tended to be relatively low in price and lend themselves to an affordable housing initiative.

The broad objectives of the Housing Opportunity Partnership are threefold. The first objective is to revitalize inner city neighbourhoods by acquiring deteriorating homes, renovating them and selling them to first-time buyers. Direct involvement in physically changing the make-up of a street and eventually a neighbourhood is proposed to achieve this objective. The second objective is to promote homeownership through homebuying seminars and educational programs, and media campaigns on how affordable it is to own a home in Winnipeg. By actively promoting homeownership as a partnership, HOP believes it can be a catalyst for stimulating inner city homebuying activity well in excess of what homes HOP has acquired and renovated. The third objective is to be a prototype for other cities to follow in Canada.

In part, the initiative is motivated by enlightened self-interest on the part of the real estate industry. They see this as an opportunity to improve the core area while creating new business opportunities (home sales). The initiative also benefits the city in improving the quality and value of neighbourhoods and thus the property tax base. Low- and modest-income households benefit through opportunities to access homeownership.

The initiative was stimulated when a group of realtors, local politicians and business people visited Columbus, Ohio and were inspired by a similar program established there. Realizing the necessity to develop a capital fund to finance acquisition and rehabilitation, the partnership sought, and has been successful in obtaining, a legislative amendment to provide access to interest earned on real estate broker trust accounts (purchaser deposits). In 1997, it obtained $129,237 from this source and project a similar revenue flow in future years. Previously, these interest earnings flowed to the treasury via the Manitoba Securities Commission.

Initiator/sponsor

HOP is a not-for-profit corporation with a board comprising representatives from the business and real estate community.

Other partners/financial involvement

None

Public funding programs accessed

The HOP applied for funding through the Winnipeg Development Agreement, a $75 million tripartite five-year agreement between the federal and provincial governments and the City of Winnipeg. This encompasses a range of economic development and diversification programs one of which, administered by Human Resources Development Canada is a home equity program aimed at facilitating homeownership. HOP secured a grant totalling $500,000 over three years from this source, with funds to be used to cover labour costs. They cannot be used as equity for house purchase. The HRDC funds cannot be used to fund house acquisition, but once home equity is increased through renovation work, the increased equity realized upon resale to a first-time buyer can be used to augment the capital pool.

CMHC First Home Loan Program will be used to enable purchasers to make a minimal down payment (five per cent).

As noted above, HOP has secured funding from the Manitoba Securities Commission. Although it initially expected annual revenue of some $125,000 from this source, low interest rates may lower this level to $60,000 to $100,000.

Packaging

HOP is developing an acquisition and rehabilitation program to acquire existing properties. It is focussing on a fringe area outside of the most depressed neighbourhoods. It is felt that there is a greater chance of success, and new homeowners will be more interested in this neighbourhood, than they would in more distressed areas of the adjacent core area.
A purchaser application process is also being developed, targeted to first-time purchasers. The revolving loan fund is capitalized from the sources noted above and from any other grants and donations that can be secured.

HOP will develop homebuying seminars and educational programs directed at helping first-time buyers understand this process and their obligations as owners.

Opportunity for purchasers to participate in the rehabilitation process is being developed with the expectation that they will be able to add sufficient value to generate sweat equity equivalent to 2.5 per cent of the value. This will represent half of the five per cent down payment. The remaining 2.5 per cent must be provided in cash. Purchasers must be first-time buyers (have not owned a principal residence in Canada in the last five years) and must meet lender and NHA qualifications for 95 per cent mortgage financing.

Impact on affordability

Existing homes in the core area of Winnipeg can be acquired and renovated for between $40,000 and $60,000. At a 7.75 per cent mortgage rate, this will be affordable to a household with an income of $18,000 to $24,000.

Key features/innovations

This is a unique Canadian example of an effort to emulate the U.S. practice in developing a broadbased housing partnership, with significant private-sector involvement.

Its success in gaining legislative amendment to access a dedicated source of revenue for the revolving fund is also notable.

Contact

Peter Squire, Winnipeg Real Estate Board
204 786-8854

Construction costs and financing:

It is expected that homes will be acquired and rehabilitated for resale between $40,000 and $60,000.

Permanent financing

N/A

Montréal Investment Fund
Montréal, Québec

Overview

Established in 1997, the (Fonds d'investissement de Montréal (FIM and Montréal Investment Fund in English) is perhaps the only, and certainly the most significant example in Canada, of private-sector investment in the provision of affordable housing and community revitalization. FIM's focus is on acquisition and rehabilitation of existing properties in neighbourhoods suffering from physical and social decline.

In the first phase, partners will contribute $5.05 million in risk capital to be used for the purchase and rehabilitation of a target of 800 units. Still in its formative stage, the ultimate goal of FIM is to develop a workable model that will use private capital to facilitate the physical and social improvement of neighbourhoods, create employment in the renovation industry and stimulate additional economic investment. The intent is to facilitate the purchase of existing properties by cooperatives, non-profit organizations and individual homebuyers, while generating a modest return on investment to the private partners. Where possible it will access public programs such as those available to finance rental rehabilitation and rent supplement programs.

Background context

The concept originated in 1993 at Montréal's municipal housing agency (Société d'habitation et de développement de Montréal—SHDM). At the time, SHDM operated a program under which it had acquired and rehabilitated 3,500 units of housing over the previous five-year period.

This program utilized provincial and especially municipal non-profit housing and renovation programs. With the curtailment of this funding for non-profit programs in 1993, SHDM explored ways to maintain its proven approach. Robert Cohen, then general manager of SHDM, used the Canadian Housing and Renewal Association (CHRA) and the National Association for Housing and Redevelopment Officials (NAHRO) networks to study the U.S. partnership model for developing affordable housing.

Phyllis Lambert, (associated with the Bronfman Family Trust, Claridge Investments Inc.) a prominent leader in the fields of urban renewal and architecture was on the SHDM board of directors. She was enthusiastic about the idea of seeking private investment to maintain this type of community revitalization initiative, and found the occasion to propose FIM, during the 1996 conference on Québec's social and economic future, convened by Québec premier Lucien Bouchard.

Montréal was experiencing a collapsing real estate market, loss of population in the core and a declining tax base. This combined with the persisting need for affordable housing, foreclosure of a number of rental properties and an inactive construction industry created a set of circumstances receptive to the idea of an investment fund. Labour unions and the financial community had strong interests in stimulating the local economy and investing in distressed neighbourhoods to preserve both jobs and investments.

Initiator/sponsor

FIM was established as a limited partnership in May 1997. The initiator and sponsor of the partnership was Phyllis Lambert who is the chair of the general partner. Through her family trust (Claridge Investments), Madame Lambert also invested in the partnership.

Other partners/financial involvement

The limited partners involved in the first phase are:

- a federation of credit unions—Fédération des caisse populaires Desjardins de Montréal et de l'Ouest-du-Québec ($1.25 million);
- a pension fund—Fonds de solidarité des travailleurs du Québec ($2.5 million);

- two commercial banks—Royal Bank and the National Bank of Canada (each $400,000);
- Québec's principal public utility— Hydro Québec ($400,000); and
- with the $100,000 investment from Claridge, the total private investment was $5.05 million.

Public funding programs accessed

FIM will take advantage of existing rehabilitation and rent-supplement housing programs available to the private sector, operated by the province in collaboration with the City of Montréal. Under the renovation program, private owners may be eligible for grants covering 50 per cent of the rehabilitation cost.

Packaging

The $5 million raised through FIM will be used to lever a further $15 million of private financing with the total of $20 million used to finance the acquisition and renovation of existing properties. FIM will assist community non-profit cooperatives and associations to help them purchase and rehabilitate existing properties—many of which are priced relatively low. FIM will provide second-mortgage financing to cover the gap after first-mortgage financing from private commercial lenders. This will be interest only, with a 10-year fixed term, fully repayable on maturity (at which point the project cash flows are expected to support refinancing).

FIM's participation with established community-based non-profit organizations, together with CMHC mortgage insurance will assist in securing first-mortgage financing.

Rehabilitation is intended to be modest in order to maintain long-term affordability of the units. As a result of the low acquisition price, and modest level of rehabilitation (total anticipated post rehabilitation cost of $25,000 per unit), it is expected that even at relatively affordable market rents the projects will generate a small cash flow, which will yield, a return on investment (on the FIM second mortgage approximating eight per cent.

Where appropriate, some properties will be made available for sale to individual purchasers, essentially an affordable first time buyer program. FIM intends to develop homebuyer education programs to facilitate this transition to ownership.

The majority of the units will be purchased by community-based non-profit associations and resident-formed cooperatives.

The private investors are motivated both by a sound return on investment and a desire to stimulate economic recovery through targeted community investment. Private lenders will have the opportunity to participate in relatively secure new business opportunities (first mortgage loans at market rates) while supporting revitalization of low-income neighbourhoods.

Impact on affordability

The properties will be rented at market rents, which tend to be quite low in Québec. For example, two-bedroom units may rent for approximately $400.

It is anticipated that affordability for lower-income households will be assisted by accessing existing rent supplements available from earlier commitments under the cost-shared federal—provincial rent supplement program.

Key features/innovations

This is the first initiative in Canada to stimulate a large-scale private investment in a community-based partnership approach.

The initiative is seen as benefiting the lending community by stabilizing declining communities; it benefits the construction industry and unions by generating renovation employment (the $20 million investment is expected to create almost 200 employment years); and it will ensure the improvement and preservation of affordable housing stock. The residents and community associations will be mobilized to preserve affordable housing stock in the hands of either non-profit cooperatives or resident associations, or in some cases individual homeownership.

Contacts

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Construction costs and financing

To date, FIM has not completed an acquisition and rehabilitation. Initial analysis of market opportunities suggests the following general per-unit pro forma:

Construction costs and financing	
Use of Funds	**Total**
Acquisition	$11,000
Buildings improvements	$9,000
Soft costs	$5,000
Total	**$25,000**

Permanent Financing			
Source	**Rate**	**Terms**	**Amount**
Private mortgage lender	Market rate	CMHC insured first mortgage, 5-year term, 25-year amortization	Approximately 75% of cost
FIM	8%	Second mortgage, interest only, 10-year term, due on maturity	Approximately 25% of cost

Pilot Neighbourhood Revitalization Hochelaga-Maisonneuve, Montréal, Québec

Overview

The Collectif en aménagement urbain Hochelaga-Maisonneuve (CAUHM), created in 1983, represents a consortium of local individuals and non-profit community groups involved in the social and economic development of the Hochelaga-Maisonneuve neighbourhood. Its mission is to improve the quality of life in this neighbourhood by involving the local population.

With the collaboration of various local and regional partners, the CAUHM plays a major role in the revitalization efforts being undertaken in the neighbourhood and has been mandated by Montréal's housing department to help deliver its revitalization of central neighbourhoods program in Hochelaga-Maisonneuve. The group is now housed in a storefront office on one of the sector's major commercial streets.

Background context

The program to revitalize central neighbourhoods was initiated by the Government of Québec in late 1995. It provides matching funds to municipalities which certain criteria (based on age and quality of building stock, number of low-income tenant households). The program, which targets the most distressed neighbourhoods, allows municipalities latitude in defining their individual programs with the result that each municipality choosing to participate has the opportunity to design a tailor-made program able to respond to its specific needs.

Montréal's program was adopted by city council in April 1996 with a budget, over two years, of $40.2 million shared equally by Montréal and the province. The city has chosen to target five distressed neighbourhoods including Hochelaga-Maisonneuve. Subsidies are awarded for various types of projects, all private, including the renovation of residential buildings, the rehabilitation of boarded-up or vacant buildings and the construction of new housing on vacant lots.

The broad objectives of Montréal's program are to:

- concentrate investment and effort in a limited number of neighbourhoods;
- improve the quality of life;
- stabilize and re-create the socioeconomic profile of these neighbourhoods in particular by increasing the number of homeowners;
- consolidate the city's tax base; and
- stimulate interventions by other partners notably community groups and other municipal departments.

Hochelaga-Maisonneuve is a traditionally Francophone, working-class neighbourhood and is currently one of the city's most distressed sectors. It is characterized by high unemployment (estimated at 26 per cent), by a population which has been steadily declining over the last 30 years, by low-income tenants (88 per cent of households) and by a depressed real estate market (high vacancy rate in rental buildings, large number of repossessed buildings, over 70 boarded up or vacant buildings).

As part of the revitalization program, the city has implemented a pilot project in this neighbourhood by awarding a contract to the CAUHM. Its mandate is to stimulate revitalization efforts in this sector.

Initiator/sponsor

For many years, Montréal had been lobbying the provincial government to recognize, through its policies and programs, Montréal's role and specific character as a central city, as well as the particularities of its housing stock. At the same time, various groups in the Hochelaga-Maisonneuve neighbourhood had been doing their own lobbying at both the provincial and municipal levels to implement a revitalization program directed specifically at their community.

Following the adoption of the revitalization program, the pilot project was implemented in Hochelaga-Maisonneuve.

Other partners/financial involvement

CAUHM has received the following financial support:

- Montréal, housing department contract of $156,000 for services offered in Phase I of the program with additional contract to be awarded in subsequent phases;
- Samuel and Saidye Bronfman Foundation grant of $25,000 per year over a two-year period;
- Québec Ministère des Affaires municipales lump sum grant of $50,000; and
- CMHC Affordability and Choice Today (ACT) program grant of $10,000.

CAUHM also receives non-monetary support from its major partners which include the CLSC Hochelaga-Maisonneuve (local community health and social services centre); the local housing resource group, Bâtir son quartier; the local chapter of the Chamber of Commerce; and the local Economic Development Corporation.

Public funding programs accessed

The catalyst for this pilot project was the creation, by the provincial government (specifically the Société d' habitation du Québec), and the subsequent adoption, by Montréal, of the revitalization of central neighbourhoods program. Phase I (April 1996 to December 1997) of the program had a total budget of $40.2 million; Québec has announced that the program is to be continued for the next five years. Montréal's total budget for 1998 will be $15.6 million.

Additional public funding is also available through the Accès-logis program which provides funding for the purchase and renovation of cooperative and non-profit units. This program is funded primarily by provincial and municipal governments.

Packaging

The program's budget is shared equally by the province, municipality and owners who, with certain exceptions, are responsible for contributing a minimum of one-third of the costs of the work undertaken. Higher subsidy rates are offered for projects involving boarded-up or vacant residential buildings as well as for owners who intend to occupy one of the renovated units and for non-profit groups.

To be eligible for a renovation subsidy, buildings must require the correction of at least one major defect in one of five key areas (structure, electrical system, plumbing system, heating system or fire protection) and the average cost of renovation work must be at least $10,000 per unit.

Subsidies for the recycling of non-residential buildings as well as for new construction are awarded as lump sum amounts.

Across the city, Phase I of the program has resulted in the renovation of some 4,200 units, the recycling of more than 20 abandoned buildings which now house 550 units and the construction of 840 new units on vacant land. More than 200 boarded-up or vacant buildings have now been rehabilitated of which 40 are situated in the Hochelaga-Maisonneuve neighbourhood.

Impact on affordability

The Hochelaga-Maisonneuve neighbourhood is distinguished, among other factors, by its low number of resident landlords (below 10 per cent in some sectors). One of the objectives of the revitalization program is to increase the number of homeowners (and resident landlords) in the neighbourhood notably by attracting low- and middle-income households. Phase I has been effective in meeting this objective and has led to an increase in the number of homeowners in all the target neighbourhoods, including Hochelaga-Maisonneuve. More than 41.5 per cent of units receiving a grant are to be occupied by their owners.

For low- and middle-income households, the option of buying a unit, which has been converted from rental housing, may be particularly advantageous. One of the strategies being pursued by CAUHM is to try to create interest in this type of homeownership and to inform both developers and tenants of its advantages. The implementation of this strategy is expected to yield telling results during the second and subsequent phases of the program.

Key features/innovations

One of the major characteristics of this program is the volume of investment created due to the initial subsidies offered. It is estimated that in Phase I, the original budget of $40.2 million will generate more than $156 million in economic spin-offs of which more than 70 per cent comes from the private sector.

In addition, although money allocated under the revitalization program is directed primarily toward the renovation and rehabilitation of the existing housing stock and to new construction, it is hoped that it will act as a catalyst for other revitalization efforts in the targeted neighbourhoods. Such revitalization efforts often start at the grass-roots level, thus the decision by the city to fund community groups within the framework of this pilot project. CAUHM, through its various partners, has a widespread network and detailed knowledge of the neighbourhood, which constitutes an unequalled resource.

This initiative, a first for the city, will be evaluated to determine the pertinence of its implementation in other sectors.

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Construction costs and financing

N/A

Permanent financing

N/A